

Public Utilities

Volume 65 No. 3



February 4, 1960

CURRENT FACTORS IN GAS PRODUCER RATE CASES

By The Honorable Frederick Stueck

« »

Politics Begin in a Little Red Schoolhouse

By James H. Collins

« »

Socialism and Crab Grass

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Regulation of Communications versus Censorship

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Public Utilities

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VOLUME 65

FEBRUARY 4, 1960

NUMBER 3



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PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

Executive, Editorial &

Advertising Offices 332 PENNSYLVANIA BLDG., WASHINGTON 4, D. C.

Publication Office CANDLER BUILDING, BALTIMORE 2, MD.

Advertising Representatives:

New York 6: Robert S. Farley, 95 Liberty Street, COrtland 7-6638

Cleveland 15: Macintyre-Simpson & Woods, 1900 Euclid Avenue, CHerry 1-1501

Chicago 1: Macintyre-Simpson & Woods, 75 E. Wacker Drive, CEntral 6-1715

Pacific Coast: M. D. Pugh & Associates,

P. O. Box 635, Altadena, Calif., SYeamore 7-2894

and

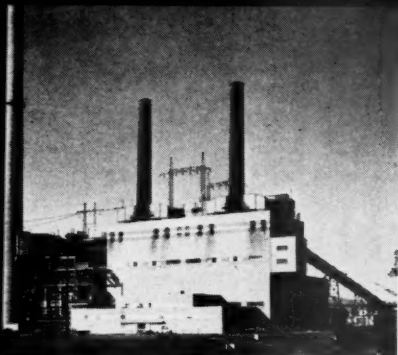
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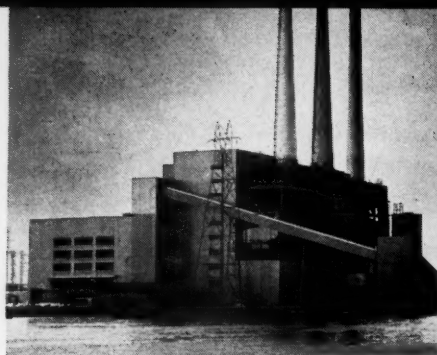
Subscriptions: Address correspondence to PUBLIC UTILITIES FORTNIGHTLY, circulation department, 332 Pennsylvania Building, Washington 4, D. C. Allow one month for change of address.

Single copies \$1.00. Annual subscription price (26 issues a year): United States and possessions, \$15.00; Pan American countries, \$15.00; Canada, \$16.00; all other countries, \$17.50.

Entered as second-class matter April 29, 1915, under the Act of March 3, 1879, at the Post Office at Baltimore, Md., December 31, 1936. Copyrighted, 1960, by Public Utilities Reports, Inc. Printed in U. S. A.



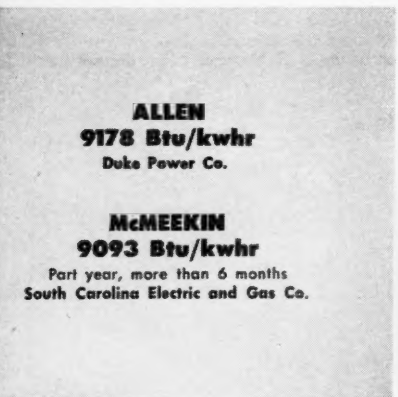
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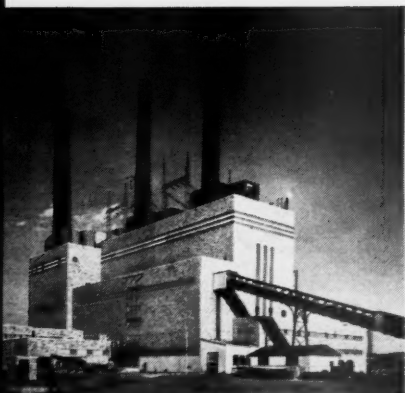
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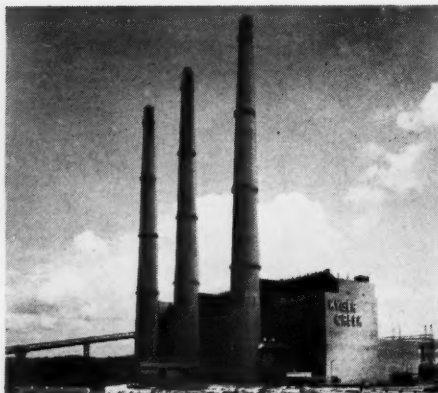
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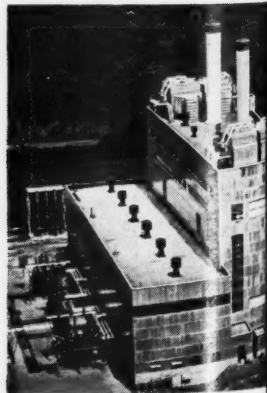
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Pages with the Editors

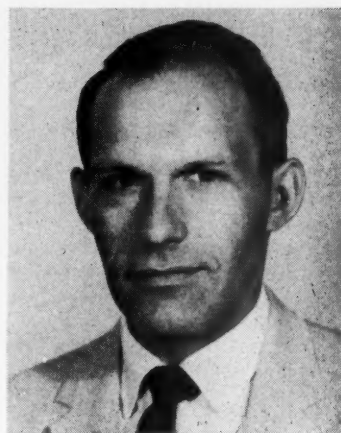
Is public ownership and operation of utility service or its supply, such as TVA operations, a form of Socialism? This is one of those kind of questions likely to draw more of an emotional than a reasonable reply from a good many people. The late Congressman Maury Maverick of Texas used to call that kind of a question a "red pepper question," because when you put it into a debate or less formal discussion, it always stirs things up.

THE answers you are likely to get from such a question range all the way from an indignant denial to an indifferent "Sure, so what?" Actually, if we apply the classical definition of Socialism to public ownership and operation of any form of private utility enterprise, it is hard to avoid the impression that such activity is at least, pro tanto, a form of Socialism. It might be very distinguishable from the general category of Socialism in which an entire state is organized on the basis of government ownership, and it might be argued that there are very good reasons for specialized departure in the direction of government ownership in the case of utility enterprise.

BUT distinctions and rationalizations to one side, how can anyone say that government-owned utility activities do not fall within the following routine definition from "Webster's New Collegiate Dictionary":

Socialism. A political and economic theory of social organization based on collective or governmental ownership and democratic management of the essential means for the production and distribution of goods; also, a policy or practice based on this theory.

YET, the question is not always so easy to answer in these days of complex ideological changes. Last month, for ex-



JOSEPH R. PAHLE

ample, word reached us via Reuters from Utrecht, The Netherlands, of a two-day "soul-searching" conference of 300 European Socialists, which ended without an agreement on nationalization. The meeting, attended by top Socialist leaders from Britain, Austria, Holland, and Belgium, was to determine, among other things, whether the nationalization of industry is any longer a prime requisite of any Socialist party.

HUGH GAITSKELL, leader of the Socialist Labor party of Great Britain, thinks that it is old-fashioned, that it has lost its appeal, that it lost the recent election for the British Labor party, and that it should be dropped. There is, of course, a strong die-hard left wing of Gaitskell's party which insists on a dogmatic adherence to state ownership of industry—at least so-called "basic industry." At the Utrecht meeting, Anthony Crosland, prominent British Laborite, took a midway position to the effect that demands for state ownership should be soft-pedaled.

WELL, if the Socialist parties are going to drop their demands for Socialism—at least in the sense of public ownership of industry—what is there left for them to talk about? What do the modern Socialist

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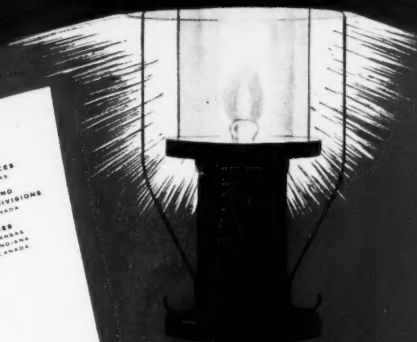
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Sheldon Coleman



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PAGES WITH THE EDITORS (Continued)

parties—without public ownership demands—stand for? Crosland suggested that the main issues now revolve about racial equality, better distribution of wealth, and more classless and less aristocratic society. Crosland said that advanced Western economies “can now escape mass unemployment and serious changes in the business cycle” without taking over control of industry.

WELL, it is a strange world in which the Socialist parties are dropping public ownership and some segments of the major party of our own capitalistic state are so much in favor of it. Then, there is the example of the Union of Soviet Socialist Republics which started out with the Bolshevik Revolution in 1917 as a form of pure Marxian Communism. Yet it has dropped one after another Marxian theories on such subjects as equal pay, taxation, classless society, nationalism, and so forth.

In such a topsy-turvy world it is small wonder that a waggish newspaperman, during Khrushchev's visit to the National Press Club last fall, had the temerity to ask the question, “Is the Soviet government advancing towards Capitalism as rapidly as the capitalistic United States is progressing towards Socialism?”

JOSEPH R. PAHLE, who wrote the article “Socialism and Crab Grass” beginning on page 163, was born in Akron, Ohio, in 1922 and graduated from Ohio University (BS). After duty in World War II as an officer in a Parachute Infantry Regiment in Europe, Mr. PAHLE spent five years in the advertising business in Chattanooga. His firm handled both gas and electric appliance accounts, but with the introduction of natural gas in Chattanooga in 1950, he accepted a position as advertising and public relations manager with the Chattanooga Gas Company. He is also active in the Chattanooga Advertising Club.

* * * *

THE leading article in this issue comes to us from a member of the Federal Power Commission and deals with cur-



FREDERICK STUECK

rent factors in gas producer rate cases. When the U. S. Supreme Court back in 1954 decided the so-called Phillips Petroleum case, it pushed FPC into a sea of jurisdictional responsibility in which it has been floundering ever since. What the end will be, no one seems to know at the moment. But the FPC is trying its best, and eventually some workable solution may emerge with or without legislative assistance.

COMMISSIONER FREDERICK STUECK is a native of St. Louis, Missouri, and a graduate of both the Arts and Science and Law School of Washington University in that city. After practicing law there from 1929 to 1941 he was appointed chairman of the Missouri Public Service Commission. In 1943 he entered military service as an enlisted man in the Army and still holds a Captain's commission in the Army Reserve. After the war COMMISSIONER STUECK entered the casualty insurance business, and in 1950 re-entered private law practice. He was appointed to the FPC by President Eisenhower in 1954. He has been active at all levels of bar association work—national, state, and local—and in the Delta Theta Phi law fraternity.

THE next number of this magazine will be out February 18th.

The Editors

"Workshop-on-Wheels"

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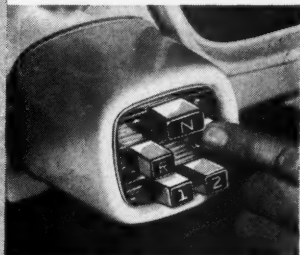
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(February 18, 1960, issue)



NEW HORIZONS FOR REGULATION

George R. Perrine, chairman of the Illinois Commerce Commission and president of the National Association of Railroad and Utilities Commissioners, is, above all else, a practical regulator. Meeting the demands of rate case procedure in an inflationary period requires the practical, active, and intelligent approach. In this article Chairman Perrine has discussed a number of regulatory problems, especially in the natural gas field, and what might be done about them at the state regulatory level. Underground storage, service restrictions, lack of mass understanding of regulatory difficulties, public relations during a rate case—these are among the problems which are covered in this story about new horizons for utility regulation.

SOME NEGLECTED ASPECTS OF THE ST. LAWRENCE SEAWAY

The St. Lawrence seaway has now been in operation for a full year. Already there are disconcerting stories about the failure of this great inland waterway to live up to advance billing. Robert W. Harbeson, professor of economics, College of Commerce & Business Administration, University of Illinois, Urbana, Illinois, has made an objective, down-to-earth analysis of the St. Lawrence seaway performance, including the incidental development of hydroelectric power. Have we expected too much too soon of this international link which creates a new sea of our Great Lakes watershed? Separating fact from fiction and transitional from long-range indications, the professor reaches his own conclusion on whether the so-called savings in transportation costs have been overrated.

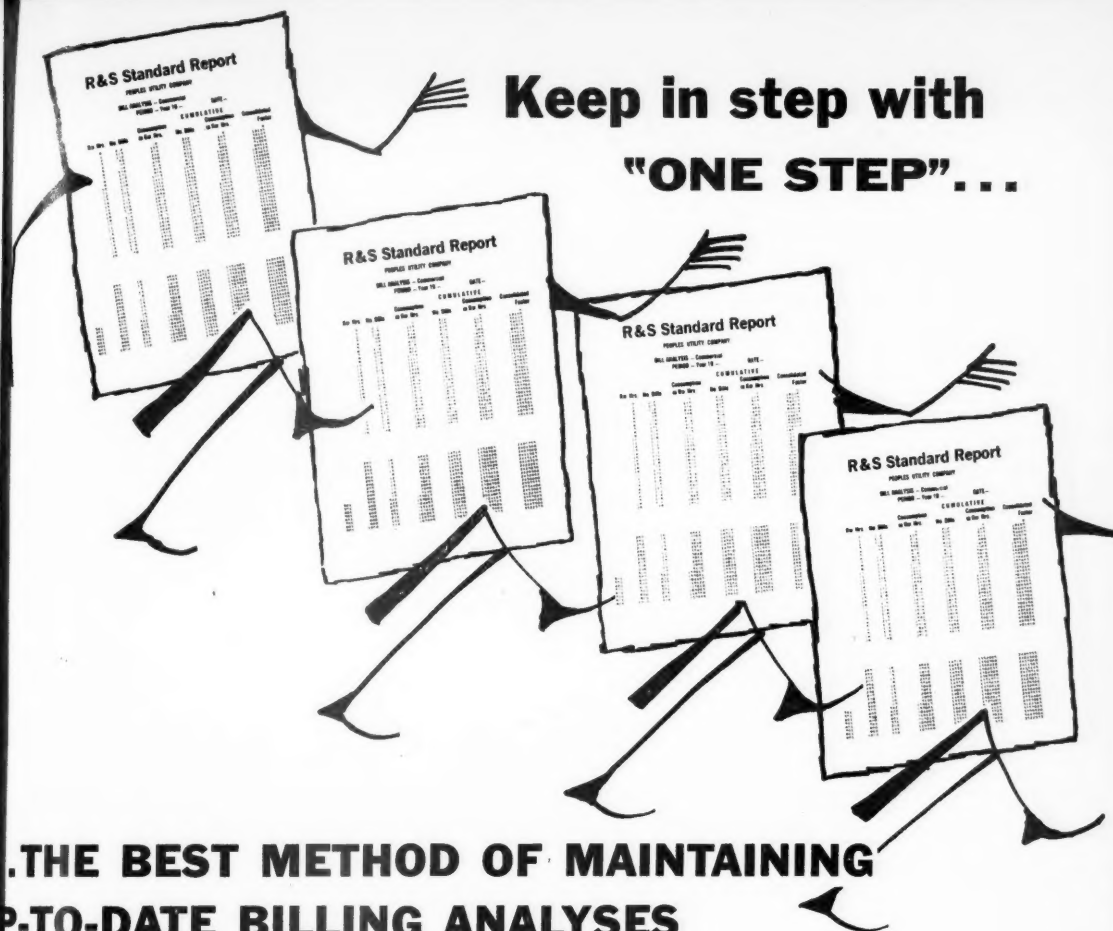
A CONSUMER'S PERSONAL EXPERIENCE WITH UTILITY OWNERSHIP

Years ago public ownership in the electric field was sold on the promise that cheap power would result from the construction of hydro facilities under government auspices. Now we find great municipal plants, such as in Los Angeles, converting rapidly to steam as Lake Mead on the Colorado river slowly silts up, cutting down the reserve of water for power production. Alfred M. Cooper, business writer and former editor, calls on his long personal experience to discuss the changing viewpoint about utility operations of various kinds—telephone, gas, and electric. He has seen a number of changes, including a reluctant change in his own point of view and the inescapable political component has had a dominating impact on these changes.



Also . . . Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.

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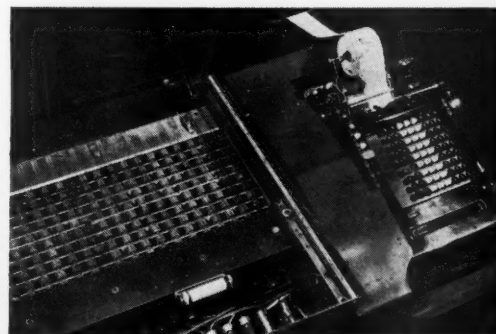
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Professor, University
of California.

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RONALD T. WEAKLEY
Business manager, Local 1245,
International Brotherhood of
Electrical Workers.

"Private construction and operation of the power facilities on the Trinity river project will protect our right to collective bargaining and will, we believe, save money for our already overtaxed members and their families. . . . [the] whole picture of future employment can be changed overnight when public agencies invade the business of our employers. . . . underwriting tax-free public power agency bonds as against private tax-paying investment is, we believe, a bad bargain for all of us. After these agencies are set up, we find that instead of federal power being used to pay for water development, these agencies get power at below cost to the extent that all the taxpayers are paying for subsidies to a favored few customers."

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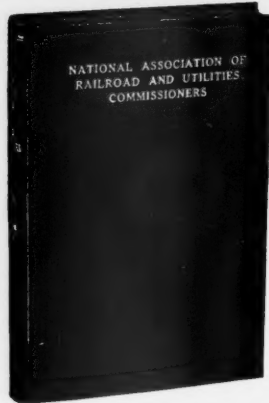
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Rates of Public Utilities and Transportation Agencies, Valuation, Railroad Problems, and Regulation of Public Utilities, Panel Discussion on the subject of "Inflation and Its Effect on Utility Regulation of Rates and Utility Financing," Addresses on "Legislation Affecting the Federal Regulatory Process" and "The Impact of the Supreme Court Decision in the Service Storage and Transfer Case." This volume contains a complete transcript of the addresses and committee reports of the 1959 Philadelphia meeting. The book is printed and bound in regular book cover.

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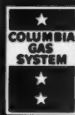
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UTILITIES

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FEBRUARY

<p>Thursday—4</p> <p><i>American Gas Association begins Home Service Workshop, Chicago, Ill.</i></p> <p>3</p>	<p>Friday—5</p> <p><i>American Society of Testing Materials ends committee week, Chicago, Ill.</i></p>	<p>Saturday—6</p> <p><i>National Rural Electric Co-operative Association will hold annual meeting, St. Louis, Mo. Feb. 22-25. Advance notice.</i></p>	<p>Sunday—7</p> <p><i>Minnesota Telephone Association begins annual convention, St. Paul, Minn.</i></p>
<p>Monday—8</p> <p><i>Missouri Valley Electric Association begins annual industrial and commercial sales conference, Kansas City, Mo.</i></p>	<p>Tuesday—9</p> <p><i>Louisiana Telephone Association will hold annual convention, New Orleans, La. Feb. 24, 25. Advance notice.</i></p>	<p>Wednesday—10</p> <p><i>American Institute of Laundering will hold annual meeting, Chicago, Ill. Feb. 24-28. Advance notice.</i></p>	<p>Thursday—11</p> <p><i>Pennsylvania Electric Association, Relay Committee, begins meeting, Philadelphia, Pa.</i></p>
<p>Friday—12</p> <p><i>Pacific Coast Electrical Association will hold business development conference, Long Beach, Cal. Feb. 29, Mar. 1. Advance notice.</i></p> <p>22</p>	<p>Saturday—13</p> <p><i>American Gas Association, General Management Section, will hold conference, Pittsburgh, Pa. Feb. 29-Mar. 2. Advance notice.</i></p>	<p>Sunday—14</p> <p><i>American Institute of Mining, Metallurgical, and Petroleum Engineers begins meeting, New York, N. Y.</i></p>	<p>Monday—15</p> <p><i>American Gas Association-Edison Electric Institute begin final conference planning meeting, Detroit, Mich.</i></p>
<p>Tuesday—16</p> <p><i>Edison Electric Institute, Electrical System and Equipment Committee, begins meeting, Philadelphia, Pa.</i></p>	<p>Wednesday—17</p> <p><i>Canadian Industrial Traffic League ends two-day annual general meeting, Toronto, Ontario, Canada.</i></p>	<p>Thursday—18</p> <p><i>American Bar Association, Board of Governors, begins midyear meeting, Chicago, Ill.</i></p>	<p>Friday—19</p> <p><i>National Sales Executives—International, Board of Directors, begins midwinter meeting, Jacksonville, Fla.</i></p> <p>6</p>



Courtesy, Dana College

Copenhagen Gas Lamps Go to College

Three authentic gas lamps now lend a vintage touch to the campus of Dana College in Blair, Nebraska. They were given to Dana on the occasion of its Diamond Jubilee anniversary by the city of Copenhagen, Denmark, where electricity has replaced other members of the gas lamp family.

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Public Utilities

FORTNIGHTLY

VOLUME 65

FEBRUARY 4, 1960

NUMBER 3



Current Factors in Gas Producer Rate Cases

Sufficient experience has been gained by the FPC since the Phillips decision in 1954 to enable it to devise a workable program for resolving some of the regulatory problems with which it is confronted. The huge backlog of suspended rate filings of producers makes such action imperative. Here are some concrete ideas aimed at that objective.

By The HONORABLE FREDERICK STUECK*
Member, Federal Power Commission

THE problem of producer prices began with the handing down of the Phillips decision on June 7, 1954, *Phillips Petroleum Co. v. Wisconsin*, 347 US 672 (3 PUR3d 129), which decision in effect ordered the Federal Power Commission to regulate the sale of a commodity under a law designed to regulate a public service. Prior to that decision it was feasible, even though at times intricate, to obtain the fair value of the prop-

erty committed to the public service, add to that figure other monetary considerations, including the price of the purchased gas, and so develop a cost of service from which rates could be calculated.

With the coming of the requirement to regulate the price of the producer came the cogent question: "How can anyone arrive at an original cost or a replacement cost or a fair value of a basic irreplaceable natural resource?"

The prices of other basic natural resources, copper, silver, or gold, are regu-

*For additional personal note, see "Pages with the Editors."

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lated either by mandates from the government or by the competitive impact of world prices. Natural gas cannot be exported to or imported from any country other than Canada or Mexico, our neighbors, so world trade competition has no real effect even though some few shipments of liquefied methane have been transported to Europe.

THE prices of competing fuels, coal and oil, are not regulated. Prices of natural gas, regulated or even unregulated, are, as of this date, lower than those of coal or oil in nearly every part of the country. But the fact is that in many parts of the country natural gas is reaching an economic ceiling right now!

While it is a fact that 32 million household customers are being served today and 12 million more are predicted to be added by 1970, it is also a fact that to serve those millions for five months of the year, other sales must be found for the other seven months in order to keep up the load factor and to keep the prices to be charged these customers from becoming prohibitive.

Load Factor Creates Problems

IT is in these "other sales" that the real facts of life are presenting themselves to the distributors and the pipelines. In my home area of St. Louis as of July 1, 1959, the Union Electric Company purchased coal at a price of 20.49 cents per million Btu at its Meramec plant—the price of gas is 20.36 cents per million Btu, a difference of 13/100 of a cent—and it is a known fact that at that plant, burning coal can be more efficient than burning gas.

In the recent *Midwestern* (southern

section) certificate case, *Re Midwestern Gas Transmission Co. et al.* (Opinion No. 320), 21 FPC 653 (28 PUR3d 380), the evidence was quite clear that natural gas had to meet a 22-cent commodity price in the Chicago area, and at the "Black Dog" plant near St. Paul that price is 24 cents.

The self-evident facts are that when natural gas cannot be delivered into these areas at or under those "ceiling" prices the competition takes over. While it is a fact that a householder can be connected to only one gas pipe, the large industrial plants are usually equipped to take full advantage of competition among fuels.

WHAT facts, then, become self-evident from the point of view of the pipeline? It is a self-evident fact that the pipeliner is now, has been, and will continue to be in the middle—between the "devil" of the gas producer and the "deep blue sea" of the distributor. Accordingly, one of the matters that must be of pre-eminent concern to him is how to continue into the future the growth he has experienced in the past fifteen postwar years. Natural gas pipelines now stretch from one end of our land to the other—from the shores of the Gulf of Mexico to the North Atlantic and from Texas to California and to Florida.

While gratifying and while representing a monumental achievement of which he should certainly be most justly proud, it also indicates a fact that the possibilities of growth through service to unserved territory are now so small that to depend on them would be virtually to stand still. Yet growth is vitally important for many reasons of which I really need not remind him. Certainly, if he is

CURRENT FACTORS IN GAS PRODUCER RATE CASES

interested in attracting capital, this is one of the first things at which an investor looks. More than that, as he well knows, with depreciation being deducted from his rate base each year, if the total dollar value of his returns is not to slump, the fact is that he must grow and expand.

Where Will Growth Come from?

WHERE then is this essential future growth coming from, if not from new and now unserved areas?

The self-evident facts are that he must expand *within* the areas he now serves. He and his partner, the distributor, must meet the competition of other fuels by finding additional uses for gas in industry, by finding more and larger storage areas nearer the markets to be served, by making a tremendous and united effort to mass produce units which will heat and cool houses throughout the entire year, by learning the facts from the city of Dallas, Texas, where, I am told, there are more than 50 installations of units of 10,000 tons' capacity and up, capable of heating and cooling large buildings with a maximum of efficiency, a minimum of

maintenance, and at a competitive price of construction. The cold, hard, self-evident fact is that the pipeliner cannot pay *just any* price asked by a producer with the expectation of passing it along to the distributor and ultimate consumer.

Now, with respect to the producers—what are some self-evident facts? The producers, certainly the pioneers, were prospectors taking long chances, risking their all, in the hope of making the "big strike."

They were and are gamblers, in the sense of that word that they take big risks in the hope of big rewards. While many of them have "struck it rich," many more have gone "broke."

While at first they sought oil and were dismayed to find gas which had no value because it had no market and no way of getting to a prospective market, many now (because of restrictions on oil and competition from foreign oil) actively seek gas, which has a tremendous market demand, with numerous pipelines competing for the privilege of purchasing and transporting gas to markets.

"Big" Producers Dominate in Gas

WHILE it is a fact that some three-fourths of the gas is produced by less than 200 "big" producers and the remaining one-fourth is produced by more than 3,000 "little" producers, it is a fact that much of the "big" producers' product is actually produced by "farm outs" to the little fellows. And, it seems to be a fact that this is true not only of exploratory drilling in new fields, but also for a considerable amount of established production in old fields. It also seems to be a fact that the vast majority of producers, "big" and "little," want the same rules to apply to all. Just as every other person in business, the fact is that the producer wants the highest price he can get and wants the benefit of every "incentive" and tax benefit allowed to him by Congress.

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Producers Dislike Gas Regulation

ALTHOUGH it is a fact that government regulation does not per se hamper growth and development of an industry (e.g., the communications industry—telephone, radio, and television—has always been under government regulation), the producer, like every other citizen, does not want governmental interference with his business, and prefers to have contracts entered into by him after arm's-length bargaining remain undisturbed. He is *sure* that his business cannot be regulated on a firm "rate base" approach. However, he knows that intrastate markets are limited and his real market is in the interstate field which under the law makes his business one which is said to be "colored with a public interest" and therefore irrevocably (under present law) subject to federal regulation.

Phillips and after

FINALLY, what are some self-evident facts about the Federal Power Commission?

As a result of the Phillips decision, the commission was given the responsibility (a responsibility which it did not ask for) of regulating thousands of individuals, companies, partnerships, and other entities under a law never designed to regulate such entities and with no legal precedents to guide it. Each rule and each commission decision had to be made with full knowledge that such rule or decision probably would be tested on appeal to the courts and that no firm pathway could be established until the judicial machinery ground its way to a final conclusion. All the while, the backlog of cases increased and increased. With no precedents to guide it and with only thirty days for

staff study, and for commission study and action, many rate increases were suspended in protection of the public interest.

In retrospect, many rates would not have been suspended had they been presented to the commission after it had had additional time for experience and study.

Some persons have urged that the commission should have driven ahead and come up with plans and a program without such study and case-by-case experience.

Perhaps a story fits in at this point:

A WOMAN driver, inexperienced at driving in New York city, found herself driving her automobile across Times Square just as the theaters were letting out thousands of people. Just as she reached the center of Times Square the traffic lights changed!! Great masses of humanity swarmed around her car—so she cautiously inched her car along to the accompaniment of honking auto horns and screaming police whistles. A traffic officer came up to her car window and asked, "What's the matter lady?" She said, "Just look at all those piles of people and that state of confusion." The officer replied, "Oh, don't let that bother you, just close your eyes, honk your horn, and drive on!!"

So without "horn honking," without "closing their eyes," and without killing anyone, the Federal Power commissioners have driven on as carefully as the circumstances would permit—following such guideposts as each court decision has given them—albeit different courts and differing decisions have not always charted a straight course.

In the city of Detroit case, *City of Detroit v. Federal Power Commission*, 11

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High Court Rules on FPC Power Act Policy

THE U. S. Supreme Court in *American Power & Light Co. v. Securities and Exchange Commission* (1946) 329 US 90, 112, 118, 66 PUR NS 33, said: "It is a fundamental principle, however, that where Congress has entrusted an administrative agency with the responsibility of selecting the means of achieving the statutory policy 'the relation of remedy to policy is peculiarly a matter for administrative competence.' . . . The commission is the body which has the statutory duty of considering the possible solutions and choosing that which it considers most appropriate to the effectuation of the policies of the act."



PUR3d 113, 230 F2d 810, certiorari denied, 352 US 829, the commission adopted the "fair field price" as the just and reasonable price; however, the court of appeals for the District of Columbia in overruling the commission held that conventional rate base or cost-of-service evidence must be used by the commission, at least as a basis of comparison. More recently the court of appeals for the fifth circuit in the *Forest Oil* case, *Forest Oil Corp. v. Federal Power Commission*, 28 PUR3d 159, 263 F2d 622, held that the commission need not require conventional rate base evidence in a rate proceeding unless such method is the only way the commission can reach its required determination. Space does not permit a review of all the other cases bearing on this point of pricing.

Certificate Cases

WITH respect to certificate cases, the law is somewhat more settled even though no new law has been established by the *Catco* decision, *Atlantic Refining Co. v. Public Service Commission of New York*, 360 US 378, 29 PUR3d 70. The

decision merely held (1) that, contrary to appellants' view, the commission *did have* jurisdiction to entertain the applications for certificates of public convenience and necessity, and (2) that there was insufficient evidence to support a finding of public convenience and necessity prerequisite to the issuance of permanent certificates.

Nothing said by the court in the case has either added to or subtracted from the authority which the commission has under § 7 of the Natural Gas Act to determine in its discretion whether the public convenience and necessity require the issuance of a permanent certificate in any particular case.

While the court went to great lengths to emphasize the importance of considering "price" as an element in determining whether a certificate is required by the public convenience and necessity, it just as clearly and emphatically pointed out that "price" is not controlling. The court made this clear in plain words. It stated:

This is not to say that rates are the only factor bearing on the public convenience and necessity, for § 7(e) re-

PUBLIC UTILITIES FORTNIGHTLY

quires the commission to evaluate all factors bearing on the public interest.

I believe that the Federal Power Commission has consistently followed this policy. Each case which has come before the commission has had to be tried on an ad hoc basis and no rigid formula could be laid down as to what should be controlling in each and every case. Each record has had to speak for itself and each case has had to stand and be decided on its own facts.

Facts Affecting Gas Prices

BUT, what facts have or should have a bearing upon the price or worth of gas, exclusive of some type of "cost" determination? Persons who are intimately acquainted with the purchase of gas, when offering a price for gas, generally recognize at least 20 facts:

Depth of Wells. The deeper the wells, the more expensive the gas. Depth is recognized in the case of oil where oil produced from deeper wells is given greater allowables.

Is the Gas Produced on Dry Land, or Marsh Land, or Offshore? For the same depth of wells and the same volume of gas, the wetter the surface, apparently the more expensive the operation. As in the case of depth of wells, this factor is also recognized when setting up allowables for oil.

Distance of the Wells (Field or Production) from (1) the Pipeline, and (2) the Ultimate Market. If the wells are at great distance from the pipeline, the gas apparently is not worth as much as that adjacent to the pipeline. Likewise, the farther away the well is from the ultimate market, the less valuable.

It Must Be Recognized That the Costs of Producing Gas Have Risen Sharply in Recent Years. This would be reflected in a "cost" determination, but the facts seem to be that most gas is not purchased on the basis of cost determination alone, although the buyer has to recognize these factors when comparing past prices with prices being offered:

(a) *Cost of exploration* is increasing, especially in face of poor structure prospects. The more expensive methods of exploring for gas are increasingly used.

(b) *Costs of obtaining leases* are going up as a matter of fact. Even though the increased value is not there, the sellers of leases are considerably influenced by rising prices and their asking prices are continually increasing. I am informed that in many cases royalties are requested on the basis of one-sixth, as distinguished from the old standard one-eighth or smaller fractions which used to control.

(c) *Drilling costs* have risen sharply. The cost of materials as well as labor is up.

(d) *Operating costs* are rising in many cases because of poor wells and fewer wells per field.

COMPETITION. The price offered for gas is influenced considerably by the number of sellers in the field and the number of buyers. This is a matter of supply and demand.

Historical Considerations. In many cases, for no logical reason, it is a fact that prices are sometimes governed by historical price levels. These historical price levels are usually connected with a

CURRENT FACTORS IN GAS PRODUCER RATE CASES

region and/or a district, such as the railroad districts in Texas. The wider regional areas such as west Texas, south Louisiana, etc., are examples of regions where historical prices have an influence.

Term of Agreement. The longer the contract term, the more valuable it appears to be to the buyer.

Ratio of Daily Contract Quantity (DCQ) to Reserves. From the standpoint of the seller, there appears to be a desire for a faster pay-out. From the standpoint of the buyer, this tendency gives a lower life index.

Quality. Obviously, a higher Btu gas or a gas with less carbon dioxide, sulphur, etc., is more valuable to the buyer. Likewise, the presence or absence of hydrocarbons has a great bearing on price.

Price Terms. The buyer also seeks contracts which do not include favored-nation clauses or price redetermination clauses. The firmest price for the longest period is most desirable to the buyer.

Take-or-pay-for Provisions. A lower take-or-pay-for clause is worth much to the buyer.

Operating Swings. It seems to be a fact that gas is more valuable to a buyer where the contract permits larger permissible operating swings.

TAXES. Provisions with respect to reimbursement for taxes or the inclusion of taxes within the price are important.

Delivery Pressure. The provisions for delivery pressure in the contract and the way they will probably work out in the particular field are of significance in fixing the price for the gas.

Spot or Short-term Purchases. Unless such purchases are adequately backed up with dedicated reserves, this type of contract is certainly of much less value to the buyer than the long-term contract.

Proven Reserves. If the gas reserves dedicated under the contract are production proven reserves, they are considerably more valuable than those reserves determined by such methods as core evaluation, etc.

Delivery in Field. Delivery at a central point in a field is an advantage to the buyer over deliveries at the individual wellheads.

Recycled Gas. Such gas reserves are more valuable because of the assurance of the reserves and known availability.

Competitive Fuels. Unquestionably, the price of competitive fuels in the area of ultimate delivery must have a bearing upon the price offered for gas.

Total Quantity of Reserves Available. Contrary to most purchases (where the greater the quantity, the lower the cost per unit), with natural gas, the greater the quantity, the higher the price.

All of these facts are known to have a bearing on price, but there seems to be no generally accepted standard of evaluation of one against another.

I am certain that, with over 1,800 independent producer rate filings under suspension and some \$120 million being collected subject to refund, necessity being the mother of invention, we must find a practical solution. The public interest demands it! All of us have responsibilities in this matter: the Federal Power Commission, the state regulatory commissions, and the industry—all segments of it.

PUBLIC UTILITIES FORTNIGHTLY

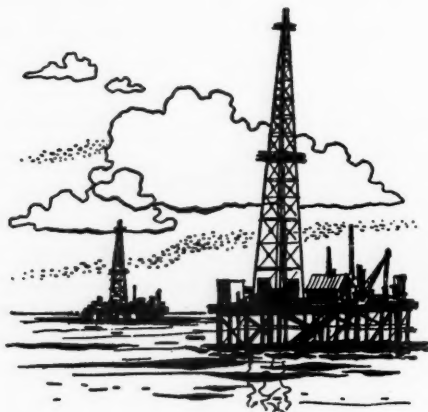
Can a Workable Plan Be Devised?

OUT of all these facts, and all others we have learned over the last five years by study and from the evidence of record in the cases before us, can we come forward with a practical plan, a workable program, and a feasible solution to the great problems with which we are confronted? I believe we can.

My fellow St. Louisan, Robert Otto, past president of the American Gas Association, in a recent speech before that association, stated that already two meetings have been held by the Natural Gas Industry Conference, composed of representatives of Independent Natural Gas Association of America, the American Gas Association, the American Petro-

As one possible way of working toward a solution, may I suggest for consideration:

1. An expanded conference consisting of the Natural Gas Industry Conference, augmented by representatives of the National Association of Railroad and Utilities Commissioners, and even perhaps representatives of key cities, could work in close liaison with the Federal Power Commission and its staff.
2. This expanded group could meet regularly and continuously until a set of generally recognized and accepted standards is worked out, standard forms of contracts are adopted, determined efforts are made to level the peaks and fill the valleys of annual consumption, and real steps forward are made in the development of the art of exploration, production, transportation, distribution, and uses of natural gas.
3. Through educating each other, this group could know and appreciate the problems of all.
4. A set of standard acceptable practices and rules could be worked out to the satisfaction of all. Just as in the football season, we see in effect a standard set of rules worked out by the American Football Rules Committee, which rules are as fair as possible to the offensive team and the defensive team and satisfactory particularly to the ticket purchasers in the stands, who pay for and make possible the whole activity.



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leum Institute, the Independent Petroleum Association of America, and the Mid-Continent Oil and Gas Association. To me this is good news and a fine beginning.

Tentative Price Levels Might Be Set

ON the part of the Federal Power Commission, may I suggest that it could be possible (after five years of case-by-case experience and an intensive study of all facts and factors) to reach tentative conclusions as to current and going prices in each known producing area and to arrive at "ceiling prices" for "old gas" and "ceiling initial prices" for "new gas." Having found it possible to establish these prices, could the commission, then, with the approval of all segments of the industry and consumers generally, take forthright action for the future?

Increased rates arrived at by arm's-length contract with fixed escalations or even redetermination to a price at or under the ceiling could then be permitted without suspension. Those "breaking" the ceiling would be suspended and proof required under § 4 of the Natural Gas Act.

Applications for new certificates involving initial prices at or under the "initial price ceiling" could be granted temporary authority by letter immediately, and permanent authority without condition as quickly as processing could take place. (The uniform type of contract, standard criteria, etc., would greatly facilitate and expedite the processing.) In such cases where the proposed initial prices exceed the "initial ceiling prices," the certificates would be conditioned at the "initial ceiling prices." Then, if the certificates

be accepted and service commenced, an increase to the proposed price could be filed, suspended for a very short period, and at the end of the suspension period the usual motion to make the price effective, accompanied by a bond or corporate undertaking, could be filed and the case could be tried under § 4 while service continues.

IN those cases where rates at prices below the "ceiling" have been suspended by the commission, immediate steps could be taken to terminate the proceedings or expedite settlements based on the "ceiling." In those cases where rates or prices above the "ceiling" have been suspended, "ceiling prices" arrived at in the manner already discussed could be a basis for talking settlement.

Perhaps the proposals are not equitable to all segments of the nation's economy, but from arguments made to the commission, from briefs and pleadings filed, and from the otherwise expressed desires, I am led to the belief that the distributors and consumers realizing the importance of a continuing supply of this most important source of energy, which in 1920 provided 4.4 per cent of our energy needs and last year supplied 28 per cent of these needs, are willing to pay "reasonable" prices to the producers, particularly since the producer gets only about one-tenth of the price paid by the consumer.

Likewise, I am led to believe that the producer is willing to accept something less than the "top price" if by doing so he can expedite the whole proceeding and get about his primary business of producing natural gas.

Politics Begin in a Little Red Schoolhouse

By JAMES H. COLLINS*



Business suddenly wanting to get it, discovers that there is an ABC and homework, the teacher probably a state senator. Utility companies particularly fit to enter, because politics begin in their home towns, and they have thousands of employees already in.

DICK MALLORY was a salesman with a company that, every year, sent somebody from management to speak at the banquet of the industry's convention.

That year there was nobody upstairs who could go, so Dick was sent as a token representative, because he could make a speech.

Dick Mallory was in politics. He belonged to a ward club, and at elections campaigned for his party. Politics took him among people. Being a salesman, he liked and studied people. Also, he felt that political interests were good training for whatever he might turn out to be in life. Dick was still in his mid-twenties.

For story purposes, Dick Mallory

*Professional writer, resident in Washington, D. C.

should have been a dead-end kid in a city with a corrupt political machine, forcing his way up, no holds barred. Actually, he came from a nice family, and a good home, and fought the machine because he stood for decent government.

Dick could talk from the tail of a cart in tough machine territory, stand up to heckling, and even make a hostile crowd like him personally, however it detested his politics.

AT the convention Dick was nobody, but, for his company, was put on the speakers' program, last of all—three minutes.

The guests were rising to leave when his turn came. He stopped them in their tracks.

POLITICS BEGIN IN A LITTLE RED SCHOOLHOUSE

He stopped them with an election speech in opposite party territory. It is no disparagement of business big-shot speeches to point out that some of them are pretty heavy, and invariably aimed at brains. That audience, by that time, full of serious problems, as well as filet mignon and green peas. Nobody had made a pitch for their hearts.

VOTERS are moved by their feelings, and so are businessmen, skillfully played upon. Dick appealed to their pride in the business they were engaged in, its difficult beginnings, its service to the nation, its progressiveness, its splendid future stretching out endlessly ahead. Not for ten seconds did he allow them to think.

From here on, the story is pure Horatio Alger. One of the big shots at the convention was an oldster who had built a personal business into a great thing, jealously guarded control, now had no sons to take over, no subordinates trained in management—not even a daughter to marry. He knew that he was getting on, and was wondering what might happen to his company, which he wanted to be a monument to his achievement.

"I like that young fellow," he said to himself. "He stood up and crowed like a game rooster. He may be the fellow I need."

The corn in Dick's talk did not bother him, or fool him. He saw it as ability. He hired Dick for a minor position, tried him out in situations, let him make mistakes, advanced him until he was in full command.

When the old boy died, Dick was the executor of a rich estate, as well as head of a major company.

The Brass Would Apoliticking Go

TODAY, suddenly, business is seriously considering going into politics. The Old Man is reading books that explain them, sitting in lecture courses, a freshman again, taking notes on politics, or sending subordinates to listen and learn.

There are some amusing angles.

What kind of politics should management go into? There seem to be various kinds.

The times are changing. Yesterday, all politics were something that management wanted to be included out of, something for the political machines and the bosses.

But today, in Washington, and the state capitals, business encounters antagonistic interests that have elected representatives for their sides. Ought business to contribute to campaign funds, back candidates of its own, fight fire with fire?

This appears to be an attractive proposition until a little course is taken in American history. From the very beginnings of our country, the very simple device of electing enough lawmakers and taking over has been tried.

Only months ago organized labor resorted to it, backing pledged candidates with work as well as money, to relieve unemployment. Before the new lawmakers could reach Washington, the unexpected happened, as it often does, and there was nothing the pledged Congress could vote for.

Probably forgotten today are the newsreels of forty years ago, which showed smiling antisaloon agents, the Wayne Wheelers and the Volsteads, who had worked under cover during a war, elected pledged lawmakers for their prohibition act, and buttressed it with enough state

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The Politicos Advise the Businessmen



THEY tell him that, as a politician, he is a good businessman. That politics is another business, that has to be learned, like manufacturing or trade. That the skills are different, that he is starting late to acquire them, that among politicians he is a greenhorn, and valued most for his money. They tell him that his political objectives are all wrong, particularly when he sets out to combat other interests, strongly entrenched by years of political activity—specifically, labor. One of the soundest reasons for not setting up such objectives is that labor is not as strong as business is thinking today. And that even labor does not vote as labor—this from politicians who not only value votes, but count them afterwards.

legislators to add a constitutional amendment. What prohibition has cost this country in lowered morale is evident even now. But eventually the public acted. So, this policy is generally corrected by democracy. It does not work—or has not yet. It is hardly a kind of politics for business to get into.

Utilities Are in Politics Now

AMONG the advisers for the businessman, pondering politics, are the politicians—and they talk turkey!

The best advice to management with political notions is that business is already in politics, at the grass roots, where poli-

tics themselves begin, in the old home town. Any business concern, even a small one, has employees in politics. Utility companies are in particularly good position to go into politics, for they have more of them, and their interests are largely local.

These employees are the Dick Mallorys, female as well as male, and they are in politics for the same reasons. They like people. They like people to like them. They like to work on projects for the good of people, and such projects turn out to be community projects nine times in ten, and community projects are largely in the province of utility companies.

POLITICS BEGIN IN A LITTLE RED SCHOOLHOUSE

Occasionally Dick Mallory will choose a political career, run for dog catcher, the city council, state legislature, U. S. Senate, and maybe reach the governorship, the presidency.

But ninety-nine times in a hundred he is in politics for experience, for skills that will be useful in his job, for friends who will scratch his back as he scratches theirs—and because he is young, and ambitious, and is interested in finding out what makes the cockeyed world go round.

YOUNG people working for telephone, power, and gas companies are likely to be drawn into politics by a community need.

Dick Mallory buys a home in a new suburb that has been a farming center. He has three youngsters, and like other young parents wants a modern school. The town has only the little red schoolhouse in which the townfolks' kids learned their three R's, which is too small, and a firetrap.

The young suburbanites agitate for a modern school building, the old townfolks are frightened by the prospect of taxes that will upset their frugal way of living, probably cost them their homes. The project comes to a vote, the oldsters defeat it.

Dick Mallory sees that an explanatory campaign is needed. Educational authorities assure him that no community in the state has ever refused to vote funds for modern schools, once the situation was explained. So, meetings are held, a speaker from the state educational department explains the situation, the oldsters have learned that they control the issue by votes, and are willing to listen. In due

course, the school is built, and nobody takes more pride in it than the oldsters.

This is politics at the grass roots. The kind of employees who engage in them are valuable to a utility company, for public relations, and should be encouraged, given a hand.

Situation for Rabble Rousers

IN the heat of an election, even a local one, management has sent employees into politics, feeling that vital issues are at stake. It is a fairly recent discovery that the public's picture of a business concern is formed by the employees it meets. The customer seldom knows anybody in management, but does know individuals who work for the company.

So, what is more logical than marshaling employees on the good side, to fight the forces of evil? Company interests are their interest, their jobs are involved. This attitude is found in industrial as well as utility companies: "This company means something to this town."

The results may be surprising.

In one exciting national campaign, utility management asked employees to wear the button of the party they favored, to help get out the vote, to work to get others out to the polls. The brass' purpose was strictly neutral, but if a Democratic customer, with a complaint, already disgruntled, saw a Republican button on the employee who called to straighten out the trouble, the latter's job was made harder.

Another company, also neutral, asked employees to carry party stickers on their cars. Management was indignant when newspaper reporters, counting noses for forecasts, asked what employee sentiment was. Information was indignantly re-

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fused. So the reporters just went out to employee parking lots and tabulated the stickers.

Employees have been lined up for political parades, and asked to state their party preferences for personnel records, and been otherwise drawn into politics. Battles for the secret ballot were waged for years before it was won in political elections, and are still being fought elsewhere. Such tactics are shortsighted policy, however neutral.

"Think!" says a seasoned politician. "What a situation for the rabble rouser as soon as business takes sides."

A School with Plenty of Homework

GOING into politics, business discovers, is like going into any new technical field. If it is atomic power, or gas cooling, or telephone merchandising, specialists are called in, and research undertaken.

In politics, the politicians are being called in, and business novices go out to get political experience. The ABC's have to be learned. The new hands start by sweeping out the office, or working with a field crew.

Typical of political study courses for business people are those in Louisville, where employees of appliance, paint, telephone, railroad, and a trust company have been sent by their respective managements, in some cases on company time.

These are the Dick Mallorys of their organizations. They are picked because they already are active in local political affairs, or are in supervisory positions, and because they can coach rank-and-file employees in the subject.

Local politicians speak at these courses, on such subjects as the selection of political issues and their presentation to voters; how political platforms are built; how voters are thinking; how they are likely to vote.

Such topics are immediately interesting to business people, much like trying to find out how consumers are going to like new goods.

Questions are asked: Do politicians set or follow trends? Are platforms written in smoke-filled rooms, or do the humble delegates have a say-so? How would you frame a platform for a neighborhood issue? A state senator said that, far from running on a platform nailed together in the smoke-filled room, everybody in the party had a hand in writing the platform on which he was elected.

THERE is homework aplenty in this school, and interesting. For example, the student is sent to attend a meeting of the city council, to see what goes on.

He is told to meet his city councilman, and report his impressions. He is asked to

POLITICOS are skeptical about business people who want to go into politics to get back at some opposing interest that appears to be politically strong. Getting back at labor is the commonest purpose. It is politically an impossibility, they maintain. But they welcome businessmen as apprentices. For them to learn the facts of political life is all to the good. Business ought to become political minded. More important, the politicos say, politics ought to be more business minded.

POLITICS BEGIN IN A LITTLE RED SCHOOLHOUSE

canvass twenty families, cold turkey, and ascertain their registration status.

There is some book work, such as breaking down his own property taxes and appraising the services he is getting, such as schools, street lighting, trash and garbage collection. He reviews the latest session of the state legislature and reports on its enactments, especially those favorable or otherwise to his own business, and business in general.

Occasionally this homework has become practical politics, as when a student was encouraged to run for the city council, or when business people got out and rang doorbells to marshal votes for a state senator who was opposed by labor—he was re-elected.

Meeting Real Life Politicos

ONE surprising feature of such political education is that business people meet politicians as persons, and discover that what they have thought about them is all wrong.

Give almost any businessman a pad and pencil, and say, "Draw a politician for a cartoon—it can be crude, but just give your mental picture." The figure drawn would most likely be a city boss, with a big cigar and a loud vest, sneering in a balloon, "Wot're yuh gonna do about it?"

Actually, politics are thronged with little politicians who have never won an office, or even run for one, never got a seat on the gravy train, obscure henchmen. In politics as in war there are times when they call up the infantry and throw it into battle. These characters are the "dough."

How do they get into politics? It may be that they were the Dick Mallorys who never got into a regular job, plumped for

a political job instead, didn't make the grade. They appear to have had the same interest in people, sympathy for and the wish to help the little underfoot human beings of our cities, in their poverty, helplessness, joblessness, sorrows, and tangles with the law.

Such help is available from the political machines, and naturally they worked with the machine, and became the lower-bracket politicians that they are. Going into politics, business will discover the real city machine.

It is visualized as a sort of tank, corrupt, powerful, driving voters to the polls, breathing down their necks as they mark their ballots, but in fact its power lies in what it does for the little people, with "pull" and "fix."

TAMMANY is the arch type of the political machine, symbolized by its Boss Tweeds; but, going back to first things, it was founded right after the Revolution, as a protective organization for the little people. There was fear, and a pretty good prospect that the new republic would have an aristocracy, an officer caste, be ruled by a propertied class. Tammany opposed that, and has been the first friend of immigrants, from the days of the Irish potato famine and the 1848 German revolt, through the decades of cheap, exploited immigrant labor.

These lower-bracket politicians evidently had soft hearts, and not very hard heads, and business will get acquainted with them, and undoubtedly discover that there will have to be some kind of machine to perform the same services to voters. What a clean political machine will be like, finding jobs for fathers of large

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families, sending turkeys to the starving widows, being a friend at court . . .

It is a good question, and will have to be answered when business knows more about politicians.

Where Sisyphus Is a Real Guy

A BUSINESSMAN joins a class in politics, which is addressed by a Congressman or state senator. He is asked to go out and ring doorbells, tabulate the people who voted at the last election, or, if not, find out why, if they want to tell. It is an innocent billet, but the professional politician is initiating him in one of the biggest political jobs—combating the massive indifference of voters. Greenhorn though he may be, the businessman is welcomed by the practical politician, because when he understands this apathy, he may help dispel some of it.

The political office seeker working to be re-elected is a figure of fun. Anybody else trying to hang onto a job—and in

these days it can be the president of the company—has a certain sympathy, a fellow feeling of other jobholders with the same problem.

But the officeholder is supposed to be a toady, dredging harbors, post offices, and other dainties out of the pork barrel. If he is defeated, there is a general feeling that a rascal has been turned out, and that from now on politics are going to be purer.

Even in the hottest national elections, only about half the voters go to the polls, and this is a curious thing to reflect upon.

ONCE upon a time there landed at Ellis Island—or even Castle Garden—a newly wedded couple in bright peasant costume. Young, strong, ambitious, seeking to start life in a land of freedom and opportunity. They went through the ordeal of being foreign born, reared kids who were genuine public school Americans.

Now here is their great-grandson,



Let's Start with Sisyphus

IN Greek mythology, Sisyphus was condemned to roll uphill a rock that forever fell back. He never existed. But in practical politics he is a real character. He is every politician trying to hold onto a job. He believes that if more voters could be led to vote, the voice of the people would be heard in his favor—or against his rivals, who are also trying to get out the vote. For lack of a few votes, depending on whether election day has Democratic or Republican weather, even a dog catchership may be lost. If business is to begin working in politics, here is the place to start.

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Status Boy, driving out to the country club alone in 300 square feet of car. It is election day. If he voted he would not know who to vote for. What difference would one vote make? Freedom? Something he was born with—what could threaten it?

The politician is forever trying to wake up this character to the fact that his vote does count, that freedom has to be fought for. The political issues have to be painted, packaged, like merchandise, permeated with emotion—and then Status Boy will not buy.

This is a never-ending problem in politics, and the politico hopes that if business gets into politics, it will understand and help.

The Political Businessman

WHY does business want to get into politics? Management is being asked this by economists, in surveys. The answers indicate a good deal of indefiniteness.

There has never been such a stirring over issues and candidates as at this year's presidential election. Business feels that the time has come to exert its influence. It veils its desire to get back at opposing interests in appropriate phrases. It is aroused by waste and corruption. But it has as yet hardly any clear-cut objectives.

It is learning that the politicians are right when they say that getting into politics to get something for themselves is wrong. Witness the company that fought a state tax increase for what it might do to the company. The campaign was unsuccessful. Had it been fought on the basis of the good of the state, the outcome could have been different.

Last year, Mr. Kappel, president of the Bell system, rang fourteen doorbells in what was clearly a pattern political project for management thinking about entering politics.

The doorbells belong to fourteen southern governors, who had invited him to address them.

He told them that, during the past twenty years, Bell growth in their states had far exceeded that in the rest of the country, because the South is changing from an agricultural to an industrial economy. He noted that every southern state had an industrial commission, seeking new enterprises, for more production of wealth, more jobs.

HE said that when sound industries had moving or expansion under consideration, they paid attention to what is now being called "business climate." How were established industries doing in the states under consideration? How was the political climate?

Naming no names, he said that if Bell people were asked about climate in certain southern states, they could not speak favorably, because in those states there was a penny-pinching attitude toward telephone service. The importance of good telephone service was not realized by their citizens.

Although he was talking only to governors, the moral was plain—the people in those states ought to understand the value of the industries they already had, and to intelligently provide a climate encouraging growth.

It would seem as though utility companies with plenty of Dick Mallorys on the payrolls, sending them to school to

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learn politics from politicians, and laying such issues before the citizenry, might be getting into politics the most effective way.

From the Mouth of a Stormy Petrel

PICKING up a New York newspaper any time the past twenty years, one would find accounts of people thirsting for the gore of Robert Moses, who has been in charge of large-scale improvements—slum clearance, housing, parks. Mr. Moses has been uprooting people, and they want his hide, his head—would be delighted to settle for his job.

Moses was educated in law and economics, and his methods ought, perhaps, to reflect this schooling. But he has said, in television interviews, that community leaders, presumably with similar education, are apt to work for causes, get wedded to them, and that he has learned most from, and been sustained by, politicians.

Particularly by Al Smith, the East Side boy who rose from Fulton fish market to be governor, and a candidate for the presidency.

Al Smith has an instinctive liking for people, and a genius for reducing complicated issues to terms that they could understand—as the New Deal in all its early bewilderment to “alphabetical soup.”

TO carry out projects such as Moses has had in hand, it has been necessary to break eggs. He has never hesitated to break the eggs for the bigger objective of the omelet, and has acquired a philosophy that sustains him under unpopularity, confident that people are going to like the omelet when it is cooked.

Mr. Moses' philosophy could be sustaining to utility brass when it has to break eggs.

If ever he opens a school to teach what he has learned in politics, the brass ought to hurry to enroll.

Why You Should Go into Politics

“TO employers, I make this special plea: Encourage your employees to participate in local political activities. If you permit an employee to give a few days of his time to charitable fund drives, it seems to me that you should also encourage people in your company to serve their community in other ways and especially to seek election to part-time public positions.

“It is a myth that the businessman who engages in politics is likely to harm his own business interests. This could happen only if a man sought to obtain special privileges for himself because of his political activities. I know thousands of businessmen in this country, Republicans and Democrats alike, who will testify that a man can be active in both business and politics without compromising his principles or jeopardizing his livelihood.”

—THRUSTON B. MORTON,
U. S. Senator from Kentucky.

Socialism and Crab Grass

As a resident of Chattanooga, Tennessee, this writer is a customer of the local municipal electric plant supplied by TVA. He is also a businessman associated with the local gas utility business, which makes him, to some extent, a sort of competitor with the city plant, supplied by TVA. So the author's views about both should be doubly interesting. He does not quibble about whether all this is Socialism. He thinks it is; but he also has a businessman's respect for the job it is doing. At the same time, he is keenly sensitive of the unfair advantages of subsidy and the importance of containing the "crab grass" of Socialism before it spreads to the point of critical damage to private enterprise.

By JOSEPH R. PAHLE*



SOcialism is a lot like crab grass. Before its visible tentacles begin to spread and strangle the weaker grasses adjacent to it, its root system is well-established and is spreading underground, sucking the life from the weaker surrounding roots. Another thing, too, about crab grass. It never has a chance to take root and become firmly established in a healthy, well-kept lawn. It needs a bare, or weak, spot in the existing turf to get its start.

Once it has gained a strong roothold, eliminating crab grass, or checking its spread, is no easy chore, but it is not impossible. No semioccasional squirt of weed killer will do it. Neither will clipping its tentacles with a lawn mower. Most lawn experts agree that the best weapon against crab grass is a strong, healthy

turf of good grass. Even crab grass is not so tough that it cannot be choked out by a stronger and better stand of good grass. Of course, a trowel, some good broadleaf grass killer, and some old-fashioned hands-and-knees labor are also recommended.

Tennessee Valley Crab Grass

PUBLIC power found a weak spot in the Tennessee valley nearly thirty years ago, and took root. This was not the only weak spot in the free enterprise utility turf to be sure, but it was all that was needed. Today, the whole valley is overrun, and the underground network of roots extends throughout the entire nation, shooting up new sprouts of public power in nearly every state.

The weak spot in the Tennessee valley was "public-be-damned" service by the free enterprise utility company franchised to serve the area. High electric rates were

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administered with a "take-it-or-leave-it" attitude. There was refusal to extend service to areas where an immediate and lucrative return was not guaranteed.

That was nearly thirty years ago. What was done then, cannot be undone now, but we had better not forget what happened, and why. You can bet your bottom dollar the residents of the Tennessee valley have not been allowed to forget.

The immediate task at hand now, for those who want to stay in the utility business, is the prevention of further spread of government ownership, and, eventually, the elimination of the crop which is already too well-established. The challenge is not an easy one, but it has got to be accepted, and I, for one, am convinced that victory can be had if private industry wants its badly enough.

There is no premixed antidote available that can be purchased and sprayed on public power to make it wither and die. It must be compounded. The ingredients must be determined by an accurate analysis of the growth, its strength and its weakness.

"Electric Center of the Nation"

To examine the weed, one needs a microscopic view of its strongest sprout. May I suggest that the choicest of all specimens is to be found in Chattanooga, Tennessee, the so-called "Electric Center of the Nation," located in the heart of the Tennessee valley, where the average citizen is joyfully consuming nearly 13,000 kilowatt-hours of public power per year?

Chattanooga is not unlike other American cities of comparable size. It is a pretty city, with its share of tourist attractions. It is a transportation hub, and is very in-

dustrial. It is a city of churches, with more clergymen than attorneys. It has its share of old southern families, but they are far outnumbered by transplanted Yankees. Politically, most everyone is registered as a Democrat, but we often elect rock-ribbed Republicans to important local posts. And Ike carried Chattanooga both times, by comfortable margins.

And one more thing. The citizens of Chattanooga are, on the whole, good, solid Americans. They do not wear pointed beards and carry autographed copies of Marx's "*Das Kapital*" under their arms. But they like government power. They feel that if their love of TVA makes them Socialists, then they have a lot of company, because they know that other communities have federal housing, municipal parking, and countless other government-owned or -subsidized businesses.

IN Chattanooga, TVA power is distributed by a municipal electric utility known as the Electric Power Board of Chattanooga. The quality of the product is excellent. The rates charged for it are quite reasonable — approximately seven mills for residential use. The present supply, now that "flood-control" steam plants are generating 80 per cent of the power, is quite adequate. And the service rendered to the residential customer leaves little to be desired. It is usually courteous, fast, and efficient, *and much of it is free!* Through appliance dealer promotions (the EPB does not merchandise appliances), electric home appliances that are competitive with gas are installed free. Builders of "all-electric" homes receive "wiring

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allowances" which are often more than sufficient to defray the entire wiring costs. Power poles and electric meters serving "all-electric" neighborhoods are set in the rear so as not to constitute eyesores.

During the past fifteen years, my own electric service has never been interrupted by any cause for longer than twenty minutes, and I can recall but two interruptions even that long.

Performs Many Community Services

CHATTANOOGA's municipal electric utility serves its customers in other ways, too. It has a large, modern auditorium which is available for public meetings without charge. One of its thirteen

downtown display windows always features something of civic interest. It supplies home service, recipes, menus, heating surveys, and all sorts of advice for the asking. It offers budget billing privileges to electric heating customers. It sees that our public schools are equipped with the newest and best electric appliances and equipment for their home economics and science classes. It sponsors Christmas lighting contests, and at Christmastime its employees make dolls for the local orphan children. All throughout the year, it sponsors electric shows, cooking classes, and model home openings. Also, its employees are very active in civic work. On television, the Electric Power Board spon-

Contributions "in Lieu of Taxes"

THE fact that neither the TVA nor its municipal power-distributing agencies are taxed leaves room for criticism and attack by their heavily taxed free enterprise opponents. So, each year, they contribute a voluntary sum of money "in lieu of taxes" to the local governments. This past year, the Electric Power Board of Chattanooga, with some 80,000 meters, contributed over \$1 million "in lieu of taxes." Ironical as it may seem, this contribution made the tax-exempt municipal electric utility Chattanooga's biggest taxpayer. Needless to say, this fact was adequately heralded by a heavily advertised week-long celebration. This voluntary contribution of \$1 million gains for public power far more good will than could be expected from a forced tax payment of twice that amount.



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sors more hours per week of informative and entertaining programing than any local free enterprise concern.

To all this, add the services that are provided directly through the TVA—free trees for landscaping, free fertilizer, and the wonderful free recreational facilities located on and around the numerous TVA-created lakes.

Can you imagine anything further that could be done to make Socialism look better or taste sweeter to its recipients? Well, the public power people can.

Sales Promotion, Too!

To all this—a top quality product, low price, good service, and excellent public relations—the Electric Power Board of Chattanooga adds one final ingredient: sales promotion! And not just a pinch of it, either. The per meter advertising expenditure of Chattanooga's municipal, nonprofit-seeking electric utility exceeds \$6 per year, which is nearly six times greater than the per meter advertising expenditure of the average nonmerchandising, free enterprise, profit-seeking utility company.

Many is the week when the local newspapers carry large daily ads, and often even full sections, sponsored by the local municipal electric utility. In addition to heavy newspaper advertising, the Electric Power Board of Chattanooga advertises on all seven local radio stations every day, on all three local television stations, in all weekly newspapers, on billboards, and with painted spectaculars.

This vast quantity of advertising, and the accompanying sales promotion, is one reason why Chattanooga's per capita electric power use exceeds that of the other major cities (Memphis, Nashville, and

Knoxville) in the Tennessee valley. Both Memphis and Knoxville have municipal gas sales, as well as electric, so no competition exists. Nashville, like Chattanooga, has a free enterprise gas utility company, but unlike in Chattanooga, the municipal electric utility advertises and promotes in moderation.

What Justifies Advertising?

A QUESTION that is often asked, but never given a forthright answer, is, "Why, with no profit motive, does Chattanooga's municipal electric utility spend hundreds of thousands of dollars annually for advertising?" The official answer implies that its primary purpose is to "upgrade the local standard of living, help the electric appliance dealers and electricians, and, in general, create a more healthy business atmosphere." Following this logic, one could justify heavy advertising by the police force, fire department, school board, and the United States Post Office. Obviously, the correct answer is that there is a profit motive—not dollar profit, perhaps, but votes, and power. The local "labor of love" and desire to excel, to outstrip free enterprise utilities in everything and spread public power everywhere, are ample motives to engage in widespread advertising and sales promotional activities.

But hidden beneath the gilded surface, there is the inevitable trap, as there always is, in the "something for nothing" schemes of men and governments. In the case of TVA, the hook is so well hidden that very few will admit that it is there. For those of us who believe in free enterprise, this hidden hook exists, at the present time, more in principle than in a tangible, visible way.

Sales Achievements of Public Power in Chattanooga

THE prior mentioned 13,000 kilowatt-hour average annual consumption is one result. Ninety-three per cent of Chattanooga housewives cook electrically, with 98 per cent depending on electricity for refrigeration. Over 50 per cent heat water electrically, and better than 75 per cent of all new home construction is "all-electric," including heating. The local use of air conditioning, home freezers, dishwashers, dryers, lawn lighting, and power equipment, such as electric lawn movers, far exceeds the national average. Chattanooga has a few "all-electric" restaurants, along with several large buildings being electrically heated. Such statistics constitute overwhelming evidence of the success of public power, and its acceptance by those served by it. In this connection, it is just an interesting observation that the Electric Power Board building itself is heated by coal, and the Chattanooga Courthouse, jail, and other municipal buildings are gas heated.¹

Self-regulated "Authority"

THIS hook is best seen in the last word in the name of the TVA—AUTHORITY. While the free enterprise utility is policed, regulated, and controlled by an outside "referee" for the protection of the customer, public power in Chattanooga is an "authority" unto itself, unregulated, uncontrolled, and unpoliced by any outside, impartial agency, such as a public utility commission. Those in its franchise area are at its mercy.

¹For a free enterprise utility company to defend an established position in a given market against direct competition by a government-owned utility is no easy task. For a free enterprise natural gas utility to take the offensive, and attempt to establish a position in a market already secured and held by public power, is doubly difficult.

The citizens of Chattanooga, Tennessee, voted in TVA in 1938. It was not until 1950 that natural gas arrived in Chattanooga, and the Chattanooga Gas Company launched its offensive in a market that was already predominately "all-electric." In the nine years since, gas sales have been increased 900 per cent, gas revenues have been increased 700 per cent, and the number of gas customers has increased over 50 per cent. Today, in the "Electrical Center of the Nation," more energy is produced by natural gas than by TVA's "cheap" electricity.

The battle has not yet been won, but a firm toe-hold has been established by a small free enterprise utility company forced to compete directly with the "Goliath" of socialized electric systems, the TVA.

Chattanooga's municipal electric utility is directed by a five-man board, each member a staunch advocate of public power. The original board members were appointed over twenty years ago to serve for life. When a member dies or resigns, the remaining board members select his successor. This all-powerful board sets both policies and rates, and directs their application. Should, tomorrow, or at some time in the future, this board decide to double or even quadruple the electric rates, there is no elected, impartial body with the power to postpone or deny the action. This self-regulated "authority" gives Chattanooga's Electric Power Board the power of virtual life or death over the businesses and residents of the area which it serves.

Preferential Treatment Outlawed In Theory

WHILE preferential treatment of customers is theoretically outlawed, builders of "all-electric" establishments and housing developments receive electric

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service immediately, while on more than one occasion, builders planning to use gas equipment found themselves faced with one costly delay after another, one builder forced eventually, after months of delays, to install a gasoline generator to operate his power saws and other electric tools, lights, etc., that were necessary in the construction of the homes. Other builders, less willing, and less financially able, to endure the pressure, conceded. Similar power could be used against any business, industry, or individual.

While "cheap" TVA power has been a contributing factor to the locating of many new businesses in and around Chattanooga, one wonders how many other businesses have been scared away from a TVA location by the "hook" in the "something for nothing" offer.

Strange Deals Made

THIS theoretically outlawed preferential treatment operates in the reverse manner, also. Prestige businesses and individuals seem to receive whatever

inducements are necessary to gain their favor and business. Commercial and industrial rate applications seem to be quite fluid and flexible. Demand meters have a way of appearing and disappearing as circumstances dictate. Restaurants open with "loaned" electric cooking equipment. Certain individuals are recipients of free "test" equipment which they use for years without ever paying either for the merchandise or its maintenance. Offers of fabulous "wiring allowances," guaranteed heating costs, and free promotion seem to crop up as if from nowhere, whenever a prestige business is discovered considering gas. And the hanging sword — "We'll cancel our business with you" — is ever present.

As reported to the Hoover Commission in May, 1953, the typical "wiring allowance" subsidy consists of payment to the user of \$5 per kilowatt for the first 5 kilowatts of installed load, \$4 per kilowatt for the next 5, and \$3 per kilowatt for all over 10. In short, a customer installing a piece of electric equipment using 100 kilowatts, receives a subsidy payment of \$315. It is truly difficult to determine why customers must be paid to use such "cheap" electricity, being distributed by a utility that seeks no profit.

IN its zeal to increase load at any cost, the Electric Power Board not only "buys" customers, but treads dangerously near the line of legality. In Tennessee, as elsewhere, it is against the law to advertise on federal highway rights of way. Yet the EPB, with its political immunity, advertises "low-cost TVA power" not just on the aforementioned rights of way, but actually on the tax-paid-for and maintained tunnels and bridges of U. S. high-



SOCIALISM AND CRAB GRASS

ways 11, 27, 41, 64, 72, 76, and 127, in and around Chattanooga. These locations, the best in town, are out of bounds for free enterprise at any cost, but are free for public power.

While the TVA and Chattanooga's Electric Power Board are supposedly totally nonpolitical, their 1953 "Reap-point Clapp Campaign" displayed the fallacy of this supposition, as do the present-day "brain-washing sessions" conducted by the TVA for its employees, where they are instructed about what to believe and preach, and how to vote for the "protection of the TVA and their jobs."

Movement to Parkinson's Law

WHILE the TVA has the newest, finest, and most efficient generating facilities, any efficiency advantage so achieved is lost by its huge number of employees, which is a public disgrace. It employs more people to do less work than any business I have ever heard of. Its policies on vacations and "sick-or-not" sick leaves stand as evidence of the fact that it has more employees than it has room for, all at one time. It has been suggested that the more people there are on the TVA payroll, the greater the number of propublic

power preachers can be sent out into the mission field.

In passing, we might also mention two active "pocket organizations" of public power in Chattanooga — the Electric League and the Public Power Association. Through these two "fronts," public power conducts many functions that are best performed by "independent" groups for public relations reasons.

In spite of the well-camouflaged "hook," the TVA enjoys the favor of the vast majority of the citizens of the valley, including countless highly intelligent, free enterprise businessmen. The TVA payroll in Chattanooga, reasons many a local businessman, spells the difference between profit and loss for his business, and, too, the low electric rates make him forget his free enterprise American heritage.

How to Curb Socialism's Spread

IF free enterprise is to emerge victorious in its present struggle with government ownership and operation of the public utility business, it must formulate and use an effective antidote to counteract the deadly poison of Socialism.

This antidote, may I suggest, must be compounded of two basic ingredients: one which will expose and attack the fallacy

It Will Take More Than Wishing

YES, the present stand of public power that has taken over the Tennessee valley is no weak, puny crop that can be defeated by wishful thinking, or its spread checked by an occasional antipublic power ad. Like a strong and healthy stand of crab grass, public power in the Tennessee valley looks better than the scrawny stand of good grass it replaced. And it is stronger, too. And judging from the requests for TVA service from surrounding communities presently served by free enterprise, it looks better than present-day free enterprise utility operation, too.

PUBLIC UTILITIES FORTNIGHTLY

of public power, and the other, a far more important ingredient, must be the strengthening of the free enterprise utility to that point where its superiority is beyond question by either the philosophical intellectual, or by the average individual who does not give two hoots about lofty principles or our tax problems—the person whose only concern is getting the most he can for his dollar, and does not care who delivers it.

FREE enterprise utilities must be in a position to pinpoint and demonstrate the actual, existing superiority of their product, and their ability to supply an ever-increasing demand, with every-minute, everyday dependability. Free enterprise utilities must be able to point to service rendered to their customers, to an integrity, to an efficiency of operation, to a sincere interest in the customer and community that exceed that rendered by public power. The employees and management of free enterprise utilities must be better informed, more enthusiastic and dedicated than are the management personnel and employees of public power. The free enterprise public utility's public relations must be the finest, and a sincere desire to sell electricity must exist. And, finally, free enterprise must leave no stone unturned in its efforts to narrow the gap between its rates and those charged by public power! After all, it is public pow-

er's low rates that constitute its basic appeal to both those of us who have it, and to those customers who do not but wish they did.

I AM well aware that reducing rates is not likely to be a very popular idea among the stockholders of private utility companies (of which I am one). However, is the alternative, the total elimination of all profits, and all dividends, caused by the elimination of the company, a more pleasant thought?

While we must face the fact that government-owned power enjoys an unfair and unjust advantage in this matter of costs, with its lack of taxes, its subsidies, its low interest rates, and its lack of a financial profit motive, we must also recognize that other factors, too, such as efficiency and load, can contribute to a cost advantage.

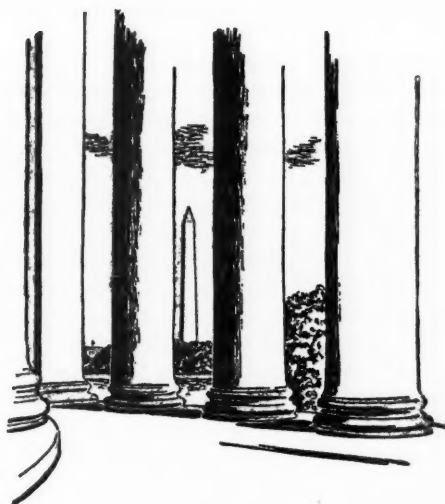
Is there, today, a free enterprise electric utility company which could not substantially reduce its per kilowatt cost of customer service by a doubling or tripling of the electric consumption of its present customers? Is there the utility company which today can boast of a 100 per cent efficient operation?

Yes, Socialism, like crab grass, is tough, but not invincible. It can be choked from existence by a healthier, a stronger adversary. Free enterprise can do the job, if it wants to badly enough.

"THE fetish of a college degree, irrespective of talent, can be destructive. To expose an average student to a curriculum designed for the exceptional student can be frustrating to the individual as well as to the society in which that individual can take an honorable and useful place."

—EDWIN S. BURDELL,
President, Cooper Union.

Washington and the Utilities



Union Oil Settlement

THE Federal Power Commission took a long step towards a fairly important short cut in breaking up the discouraging log jam of producer rate cases which has been building up on the commission's docket since 1954. This was in accepting a compromise offer to settle "out of court," so to speak, a rate increase under which two producers have been collecting higher rates for nearly five years under a Natural Gas Act suspension, subject to refund.

The producers involved in the case are the Union Oil Company of California and the Louisiana Land & Exploration Company of New York city, which sell gas to Transcontinental Gas Pipe Line Corporation of Houston, Texas. The producers filed increases in the fall of the same year, 1954, in which the U. S. Supreme Court decided in the Phillips Petroleum case that the FPC had jurisdiction over independent producers' rates. The increase boosted the price of gas from 8.797 cents to 16 cents per thousand cubic feet, and the higher rates went into effect under a suspension order on February 1, 1955.

But the importance of the Union Oil

settlement, which may become a sort of bellwether for a number of other compromise settlement offers said to be in the offing, plus a division on the FPC, indicates that the whole question of settling such producer rate increases by agreement may still have to be fought out in the courts before the pattern is established beyond dispute. Commissioner Connole dissented. Commissioner Hussey disqualified himself because of his previous activity in the case as Louisiana's Conservation Commissioner, and Chairman Kuykendall concurred. It is not clear that anybody could appeal in this particular case.

IF the settlement agreement technique catches on, it will enable the commission to dispense with the formal proceedings of conventional rate case evidence justifying the cost of gas production, which has been such a delaying factor and could continue to be so in the multitude of cases congesting the docket. The settlement offer—originally put on a take-it-or-leave-it basis—was filed last December 9th, providing for an increase from 8.797 cents to 15 cents, instead of the original 16-cent rate collected subject to refund.

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The understanding was that if the commission did not accept the offer by the deadline fixed (originally set at December 18th but subsequently extended slightly), the offer would be withdrawn and the case would have to proceed under conventional routines.

Another interesting fact about the settlement rate in this case was that it was apparently based upon prevailing prices in the area. This was analogous to the yardstick which the commission attempted to use itself in the ill-fated *Detroit v. Panhandle Eastern* case which the District of Columbia court of appeals threw out because there was no cost evidence to justify a departure from conventional rate base procedure.

So, if the commission may now approve on the basis of negotiated compromise and settlement offer what it could not order on its own initiative, perhaps a door has been opened to great possibilities in the future for breaking the bottleneck of docketed producer cases—assuming, of course, that settlement agreements can be worked out between the parties in key cases.

It is noteworthy that the FPC staff, while not agreeing with the price finally settled upon, did come up with a figure not very much different. The majority of the commission declared that the settlement would be beneficial to the public and all concerned because the commission and the producers and the pipeline companies, as well as customers, will be relieved of the time and expense necessary to conduct formal rate case proceedings.

Most Favored-nation Clause—Out

THE Union Oil agreement is also very important in view of the fact that a major feature of the settlement was the elimination of a favored-nation provision. If the favored-nation clause were still in

effect, such settlements could trigger off other rate cases because of indefinite escalation. So, all in all, it looks as if the commission were on the way to buttoning up an interesting experiment in streamlined procedure, provided the appellate courts do not throw in any more roadblocks.

Commissioner Connole did not disagree with the settlement by negotiation *per se*. But he felt in this case that the disposition agreed upon did not result in so many advantages as to outweigh the assurance of proceeding in the usual way to determine the justness and reasonableness of the rates approved. He also had some question about whether the commission, notwithstanding a compromise settlement, had an obligation to make its own finding as to the justness and reasonableness of the rates determined.

Chairman Kuykendall's concurring statement, on the other hand, seemed to be an answer to Connole's doubts. He pointed out that the Natural Gas Act does not contain any language requiring a specific finding as to justness and reasonableness, either for accepting a changed rate without suspension or terminating a suspended rate upon a showing of public interest for such action. The chairman pointed out one other important factor; namely, the favorable recommendation by the pipeline customers, buttressed by cost analysis supporting the results. In other words, the settlement was not exclusively based on the agreement between the buyer and the seller. The chairman went further and said that he would not commit himself solely to the rate base method of fixing gas producer rates.

Coal Industry Outlook

DESPITE decreases in soft coal production in 1959, the industry looks for-

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ward to producing 436 million tons of fuel in 1960. The 1959 drop in production, according to the National Coal Association, was attributable to the steel strike and as a result only a little over 400 million tons of coal were produced. The steel industry is expected to use some 103 million tons of coal during 1960, as compared with 82 million tons in 1959. It is also anticipated that during this year the electric utility industry will need some 190 million tons of soft coal as contrasted with about 170 million tons used during 1959. The association has noted that technical improvements and huge investments from coal producers have enabled the individual miner to boost his output from 6.88 tons to 12 tons of coal per day.

As the U. S. coal industry forecasts increasing production, European authorities look for a long-term decline in coal production and use. European coal production hit a postwar peak in 1947 and has since declined to about the same level as in 1953. This falling off is due in part to improved fuel use (approximately one-third of a ton of coal now produces the same amount of electricity that a ton produced at the end of World War I) and introduction of new fuels such as gas and oil. The European fuel problem is being studied by the six common market nations in an effort to establish some uniform means of taxation and regulation.

Oil Pipelines' Antitrust Problems

ALTHOUGH no evidence exists to show oil pipelines have violated the antitrust laws, Attorney General Rogers has stated that their reciprocal arrangements could lead to control of the crude oil market. Should Congress want the problem investigated, Rogers said, it should give

the Justice Department power to force the companies to supply complete information of their operations.

The Attorney General brought up the matter in his fourth annual report to Congress on antitrust aspects of the Interstate Oil Compact Commission, whose record is without blemish. Rogers called the lines owned by big integrated companies more than a transport agency—actually it “is the crude oil market.”

More Transportation Mergers

THERE will be more mergers and consolidations of airlines and railroads in the near future for financial and operation efficiency reasons. Predictions along this line were ventured recently at a meeting in Boston sponsored by the New England Council and the Transportation Association of America. Executives of the airlines felt that smaller companies would be forced to merge because they could not cope with the heavy financing needed for bigger and more costly planes.

As for the railroads, E. Spencer Miller, president of the Maine Central Railroad, said that, within the next decade, there should be both corporate consolidation of rails and consolidation of their operations. Miller also predicted there would be a closer marriage of the highway trucker and the railroads, with much greater use of “piggyback” freight trains.

Another idea broached at the Boston meeting had to do with the Interstate Commerce Commission. ICC Commissioner Anthony F. Arpaia thinks that the quasi-judicial and quasi-legislative duties of the commission should be separated from the administrative duties. Arpaia believes administrative duties should be handled under one-man direction. This

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would free the commission's basic function of protecting users and preserving the economic values of transportation in the national and public interest from the burden of attending to administrative detail.

Many of the commissioners' diverse duties, Arpaia said, were incompatible and caused an inordinate drain on time and energy. This often makes it difficult to carry out adjudicatory functions. On the whole, Arpaia regards the ICC as a necessary instrument of government, relatively simple and inexpensive to operate. He added, however, that by splitting it into two bodies, the commission's efficiency would be vastly improved.

INCIDENTALLY, the ICC is fed up with the responsibility for being the nation's official timekeeper. The ICC recently informed Congress it wants to rid itself of the chore of regulating the nation's standard time zone boundaries. A law to limit the extent of daylight saving time was recommended. The ICC said that railroad time no longer has any significance because for five to six months each year, about half the population shifts to a standard of time one hour faster. Widely varying daylight saving periods add conflict and confusion, it said.

It was suggested that Congress should review the whole situation and enact a new standard time law—with teeth—providing for time uniformity within each zone with possible exceptions to be authorized by the administering agency. If a national law for uniform observance of standard daylight saving time is thought to be too drastic, the ICC said, "the law should at least provide the extent to which, and uniform period during which, daylight saving is to be permitted."

New York Utilities Form Planning Group

THE seven major electric power companies of New York state have formed a study and planning organization to conduct a continuing investigation into the most efficient and economic means of supplying the future electric power needs of the state. The group, known as Empire State Utilities Power Resources Association, has named as its executive director, Alexander M. Beebee, former president and chairman of the board of Rochester Gas & Electric Corporation.

Mr. Beebee, in announcing the project last month, said:

The electric utilities of New York state have pooled power and consulted together on plans and operations for more than thirty years. Through ESUPRA, we will be able to greatly extend the time range and degree of this helpful interchange.

As a result, the state's tax-paying electric companies will be in even a better position to do their part to keep New York state in the forefront of the national business and industrial expansion in the years to come.

The companies sponsoring ESUPRA serve 98 per cent of the users of power in the state. In addition to Rochester Gas & Electric, they are Consolidated Edison, Central Hudson Gas & Electric, Long Island Lighting, Niagara Mohawk, New York State Electric & Gas, and Orange & Rockland utilities. ESUPRA's first task will be a continuing study of the fast-moving economics of atomic power directed by Dr. John E. Dunning, dean of engineering at Columbia University, who is a man of great experience.

Telephone and Telegraph



Southern Bell Rate Increase Ordered in Louisiana

THE supreme court of Louisiana has ordered the state public service commission to take appropriate measures in order to grant additional rate increases to Southern Bell Telephone and Telegraph Company of Louisiana. By this action the court reversed the commission's earlier action which had refused the rate relief requested by Southern Bell.

One of the prime considerations in the case was the need for expansion of telephone facilities in the state of Louisiana. It was estimated that an annual expansion expenditure of \$46 million would be needed to meet with public demands.

Southern Bell has experienced a number of difficult rate cases in this southeastern area: Louisiana, Mississippi, Alabama, and Tennessee. This decision may indicate some change of climate regarding the disposition of the rate increase requests. Of particular importance is the fact that the court gave heavy weight to the testimony which indicated the rate boost was justified in light of Southern Bell's expansion requirements.

Justice Viosca for the court majority said that the record showed that no utility is receiving anywhere as low a return as Southern Bell. He said that the disparity

is so great that "we must of necessity hold that the action of the (Louisiana Public Service) commission in its end result is discriminatory and that the rates fixed are not just and reasonable under the circumstances."

THE commission had denied the telephone company an increase of \$14,242,478 per year sought in 1957. A lower state court had allowed a small increase, \$1,918,707. The higher court's concern for the continuation and expansion of Southern Bell operations in Louisiana under more favorable earnings treatment was reflected in Judge Viosca's statement that the record in the case clearly showed that there is great necessity for an immediate expansion program in Louisiana. "Realtors, developers, contractors, manufacturers, farmers, and businessmen of every character," Justice Viosca pointed out, "have testified to the necessity of an immediate heavy construction program for additional telephone service.

"Business in the state, according to the testimony, is being severely handicapped because it is impossible to get necessary service. Occupants of homes are likewise being seriously inconvenienced."

The immediate comment of Homer Bartee, vice president and general man-

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ager of Southern Bell in Louisiana, was "We have not had an opportunity to review the court's decision in detail but from a preliminary study it appears that the court has recognized that a substantial increase in telephone revenues is necessary. We are hopeful that the results of the decision will be such as to justify the additional investments required to more fully meet the state's growing telephone needs."

ONE of the noteworthy aspects of this case is the fact that the Communications Workers of America (AFL-CIO), in contrast to some former rate cases, appeared in support of Southern Bell's petition as amicus curiae. Justice Viosca took note of the union's position in the following quotation from the CWA's brief:

Of equal importance to CWA members in Louisiana was a figure showing the earnings of Southern Bell in the other eight states in which it operates. Southern Bell's earnings in the other eight states, or its earnings excluding Louisiana, were 6.4 per cent for the first half of 1957. We believe it is only natural to expect the company to invest more money for expansion and thereby give more work and create more jobs in the other states where it can earn so much more on its investment. The union does not believe that this court should approve a rate which may have the effect of depriving many citizens of the state of job opportunities and job security.

As shown at the hearings, there is a great demand for telephone service in Louisiana. The company estimated it would have to spend more than \$46 million a year on new construction to meet this demand. The members of CWA, as citizens, want to see this state get the telephone service it needs in addition to the increased work and job

opportunities which would result. If reasonable rates are approved, the company should be able to raise and invest the money to meet this need for telephone service, and all the people will benefit therefrom.

Communications Union Opens Headquarters

IN mid-January the Communications Workers of America (AFL-CIO) officially opened its new offices in Washington, D. C. The ultramodern offices occupy four floors of the new Mercury building and they are a marvel of planned efficiency. Equipment ranges from a two-color offset press to machine tabulators and a Univac "brain." Just about every improvement in twentieth century technology seems to have been incorporated in the union's new home. A sound recording studio is provided, files are regularly microfilmed and stored in an archives section, and darkroom facilities are at hand.

The Communications Workers of America today represents some 360,000 communications workers in 47 states. Regarding the change of headquarters Union President J. A. Beirne stated, "Our mission in life remains the same. It is a profoundly serious responsibility, to secure a better way of life for the majority of workers in one of the twentieth century's most vital industries."

Harris' Committee Outlines Plans

REPRESENTATIVE Harris (Democrat, Arkansas) has announced that his Subcommittee on Legislative Oversight will open further hearings on "payola" on February 8th. Chairman Harris emphasized that these inquiries will cover all

TELEPHONE AND TELEGRAPH

phases of the question and he declined to make a more specific comment regarding the actual areas that will be covered. He said that he trusted that the inquiries would take no more than a week. (Private opinions around Capitol Hill, however, are guessing hearings may run longer.)

The House Committee on Interstate and Foreign Commerce, which Harris heads, will also give attention to the educational TV bill. The committee will also hold hearings on Chairman Harris' bills, HR 4800 and HR 6774, about February 10th. HR 4800 relates to the regulation of the independent agencies and HR 6774 governs the standards of conduct in hearings before such agencies. He indicated that no immediate action is expected to be taken on the radio spectrum study since congressional and administrative leaders have come to a temporary deadlock over military requirements.

Representative Harris indicated that the committee plans to finish its work by early July due to the impending political campaigns and conventions. He indicated that the committee would look into some undisclosed operations of the Interstate Commerce Commission, the Federal Aviation Agency, the Federal Power Commission, and the Civil Aeronautics Board.

Chairman Harris indicated that his committee is now preparing an interim report which will "very likely" contain some recommendations for new legislation and changes in regulatory administration. This report is to be issued within the next few weeks.

General Telephone Establishes Research Unit

GENERAL TELEPHONE & ELECTRONICS CORPORATION has announced the formation of General Telephone & Elec-

tronics Laboratories Incorporated, which will be devoted to a wide range of scientific research in the communications and electronics field.

NUCLEUS of the research organization will be the Research Laboratories of Sylvania Electric Products, Inc. (a General Telephone subsidiary), at Bayside, New York.

Dr. Herbert Trotter, Jr., has been elected president of the new research group. He will have the responsibility for directing and co-ordinating the research and engineering activities of the various manufacturing subsidiaries, which include Sylvania, Automatic Electric Company, Leich Electric Company, Lenkurt Electronic Co., Inc., and various international manufacturing companies.

Sylvania Research Laboratories currently has a total staff of about 350 persons engaged in research in the fields of physical electronics, chemistry, solid-state physics, metallurgy, and systems and circuits. Specific projects in data processing, communications, TV and radio, semiconductor devices, and electron tubes are now under way.

General Telephone & Electronics Chairman Donald C. Power, in making the announcement, stated: "The mission of this new research organization will be to assure that General Telephone & Electronics is in the forefront of the unprecedented technological progress we foresee in the years ahead." He added that the economy is becoming increasingly complex so that it is imperative that industry find new and better services and products to meet the expanding needs of its customers. This, he said, necessitates "research and development activities on a sufficiently broad scale to assure significant scientific breakthroughs."



Financial News and Comment

By OWEN ELY

Telephone Industry in Dynamic Rôle

THE telephone industry continued its rapid expansion last year and maintained the technological progress which promises future rewards for both customers and stockholders. The Bell system gained about 3.3 million phones, an increase of 6 per cent and a new yearly record surpassing that of 1946. Long-distance conversations increased about 10 per cent over 1958 and were about double those of ten years ago. The number of AT&T stockholders increased 100,000 to 1.7 million.

Construction expenditures totaled \$2,250,000,000, marking the fourth consecutive year that they had exceeded \$2 billion; expenditures for 1960 will at least equal those of 1959 and may exceed them. Calendar year figures are not yet available, but for the twelve months ended November 30th revenues of the Bell system approximated \$7.4 billion, 9 per cent over the previous period, while earnings on average shares increased 11 per cent to \$5.16.

The Bell system has been making an intensive study of the regulatory problem and President Kappel remarked in his year-end statement:

The need is for all government agencies and regulatory bodies in particular to recognize that the public will get the best service or products at the most reasonable price if they will allow earnings that stimulate topflight performance. . . . The evidence is overwhelming that companies that show excellent profit records do the best job for their customers and employees, and as corporate citizens contribute the most to the community at large. More and more I think the regulatory commissions and their staffs are recognizing the ties between profit, performance, and progress. However, a few commissions still prescribe

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FINANCIAL NEWS AND COMMENT

a very skimpy earnings diet. So a big part of our job ahead is to keep carrying the message that progress does depend on good profits, and prove it by performance.

PRESENT and anticipated future technological progress of the Bell system was described in an article in *Telephone Engineer & Management* by Mr. Kappel, headed "Communications to Come." Due to the rapidly increasing number of people twenty to thirty-four years old, he expects the total number of U. S. households to reach some 67 million by 1975, or 30 per cent more than we have today. The percentage of households having telephone service has nearly doubled since 1930 and should continue to gain, since about one family in five still has no telephone. Hence the number of phones should grow faster than the rate of family formation, which in turn should be greater than the gain in population (estimated at 235 million by 1975).

To improve the convenience and scope of its service, Bell will offer automatic dialers, push-button calling, and smaller instruments—perhaps built in, concealed, and stereophonic. People will be able to use telephones in every room, on every corner, in automobiles, and some day even in vest pockets, it was predicted. The principle of a flat phone rate, promoting greater use and lowering cost, will be expanded by setting up larger phoning areas locally, and later in the long-distance field.

Operator dialing across the oceans is already in use between the mainland and Hawaii, and extension to Europe is imminent—with world-wide direct customer dialing a possible future goal. Transmission of data between business machines and computers could have an amazing development, and might even become the most widely used service, Mr. Kappel

thinks; already "Dataphone" is being used for air-line tickets, etc. Use of phones in automobiles, trucks, and other vehicles should grow rapidly.

THE Bell system's field trial of electronic switching at Morris, Illinois, will begin some time this year; operating in millionths of a second, such equipment will permit time-sharing of computer and control apparatus, and permit much more intensive use of phone facilities. The electronic system is a long-range program, but in the meantime Bell will graft transistor and other new devices onto existing switching systems to increase their capabilities.

General Telephone maintained its almost unparalleled rate of corporate growth in 1959 by its merger with Sylvania Electric Products, raising annual revenues to over \$1 billion or nearly twenty times that of 1948. While industrial and miscellaneous sales now exceed telephone revenues, the latter bring down more than half of system net income. Basically, General Telephone & Electronics is still considered a telephone utility, with increased research facilities for the development of improvements in telephony.

Having only a small laboratory acquired through the Gary merger, General needed large research facilities. To build a big research staff would have been a slow and difficult process and the acquisition of Sylvania solved the problem. Also, Sylvania had been an important participant in the U. S. defense program, with about \$75 million in annual defense business.

The combined system now has 51 manufacturing plants, 23 research laboratories, and 3,000 research employees. A new subsidiary, General Telephone & Electronics Laboratories, was recently set up. (See page 177.)

PUBLIC UTILITIES FORTNIGHTLY

OFFERING OF SECURITIES BY PUBLIC UTILITY COMPANIES

(000 omitted)

OFFERING OF SECURITIES BY PUBLIC UTILITY COMPANIES (000 omitted)										
	January 1 to December 31, 1959					January 1 to December 31, 1958				
	Total	Electric Companies	Gas Companies	Telephone Companies	Other Companies	Total	Electric Companies	Gas Companies	Telephone Companies	Other Companies
Long-Term Debt										
Offered Publicly	\$2,046,080	\$1,093,100	\$442,980	\$510,000	-	\$2,748,286	\$1,684,500	\$642,078	\$417,000	\$5,248
Offered through Subscription	108,571	100,571	-	-	\$8,000	738,013	19,700	-	718,313	-
Offered Privately	336,835	112,325	163,400	31,150	29,960	534,173	108,083	369,600	48,600	8,230
Total	\$2,491,486	\$1,305,996	\$606,380	\$541,150	\$37,960	\$4,021,312	\$1,812,283	\$1,011,678	\$1,183,913	\$13,478
Preferred Stock										
Offered Publicly	\$268,310	\$81,142	\$157,168	\$30,000	-	\$345,726	\$226,628	\$107,598	\$11,500	-
Offered through Subscription	30,815	-	27,815	3,000	-	27,283	27,283	-	-	-
Offered Privately	30,900	17,300	13,500	2,600	6,500	47,500	23,100	19,275	5,225	-
Total	\$329,025	\$98,442	\$198,483	\$35,600	\$6,500	\$420,609	\$277,011	\$126,873	\$16,725	-
Common Stock										
Offered Publicly	\$313,442	\$244,035	\$1,348	\$66,018	\$2,041	\$242,523*	\$111,100*	\$108,145	\$22,593	\$385
Offered through Subscription	454,343	299,081	109,463	44,685	1,119	237,757	178,473	50,964	68,320	-
Total	\$767,785	\$543,116	\$110,811	\$110,703	\$3,160	\$480,280	\$289,573	\$159,109	\$90,913	\$385
Total Financing	\$3,598,301	\$1,947,554	\$915,674	\$687,453	\$17,620	\$4,982,201	\$2,378,287	\$1,297,960	\$1,291,551	\$13,863
SEPARATION OF FINANCING - BY PURPOSE										
Total Refundings	\$2,172	\$7,172	\$25,000	-	-	\$232,007	\$101,200	\$14,463	\$115,000	\$644
Total Divestments	\$1,490	-	\$148	-	\$1,342	\$14,737	-	\$14,737	-	-
New Money										
Long-Term Debt	\$2,459,314	\$1,298,824	\$581,380	\$541,150	\$37,960	\$3,769,379	\$1,710,343	\$977,289	\$1,068,913	\$12,834
Preferred Stock	339,025	98,442	198,483	35,600	6,500	420,535	277,011	126,799	16,725	385
Common Stock	766,300	543,116	110,663	110,703	3,161	525,483	289,573	144,612	90,913	385
Total New Money	\$3,564,639	\$1,940,382	\$890,526	\$687,453	\$16,278	\$4,735,397	\$2,276,927	\$1,238,700	\$1,176,551	\$13,219
Total Financing	\$3,598,301	\$1,947,554	\$915,674	\$687,453	\$17,620	\$4,982,201	\$2,378,287	\$1,297,960	\$1,291,551	\$13,863
SEPARATION OF FINANCING - BY TYPE										
Competitive Bidding	\$1,924,280	\$1,285,280	\$129,000	\$510,000	-	\$2,340,096	\$1,653,096	\$272,000	\$415,000	-
Negotiated Sales	\$703,592	\$132,997	\$472,496	\$96,018	\$2,041	\$986,337	\$368,510	\$586,121	\$36,093	\$5,633
Subscription										
Competitive Bidding	\$165,077	\$97,964	\$67,093	\$16,068	\$9,119	\$14,588	\$14,588	-	-	-
Negotiated Sales	319,581	263,790	31,004	16,068	9,119	221,702	170,799	49,317	2,986	-
No Underwriting	108,696	37,898	39,181	31,617	-	266,883	40,129	1,687	785,047	-
Total Subscription	\$593,734	\$399,652	\$137,273	\$47,695	\$9,119	\$1,063,693	\$225,156	\$50,964	\$786,633	-
Private Sales	\$376,735	\$129,625	\$176,900	\$33,750	\$36,460	\$582,201	\$131,765	\$388,875	\$53,825	\$8,230
Total Financing	\$3,598,301	\$1,947,554	\$915,674	\$687,453	\$17,620	\$4,982,201	\$2,378,287	\$1,297,960	\$1,291,551	\$13,863

* Includes \$622,000 common stock sold privately.

Esaco Services Incorporated, Business Management & Financial Department, January 5, 1960.

FINANCIAL NEWS AND COMMENT

GENERAL TELEPHONE & ELECTRONICS spent about \$185 million in new telephone plants and facilities last year and expects to invest about \$214 million this year. Internal growth is expected to continue at a slightly higher rate than in 1959, when the number of phones increased 237,000 or 6.5 per cent. General expects to continue to acquire smaller independent telephone companies, as the owners decide to sell their properties. In 1959 properties in Richmond, Indiana, and York, Pennsylvania, were acquired. General now controls about 36 per cent of all the independent phones in this country and about 40 per cent of the telephone plant.

General Telephone's earnings for 1959 approximated \$3.45 on outstanding shares compared with \$3.18 in 1958 and \$3.03 (pro forma with Sylvania merger) in 1957.

Utility Financing Declined 28 Per Cent in 1959

TOTAL utility financing in 1959 compared with that in 1958 as follows, according to the accompanying table (page 180) prepared by Ebasco Services Incorporated:

	Amount (Millions)	Decrease From 1958
Electric Utilities	\$1,948	D 18%
Gas Utilities	916	D 29
Telephone Companies . . .	687	D 47
Other Utilities	47	—
Total	\$3,598	D 28%

The reduction in financing reflects somewhat lower construction expenditures, and also the larger amount of internal cash provided through tax savings resulting from accelerated depreciation.



DECEMBER UTILITY FINANCING PUBLIC OFFERINGS OF ELECTRIC AND GAS UTILITY SECURITIES

Date	Amount (Mill.)	Description	Price To Public	Under- writing Spread	Offer- ing Yield	Aver. Yield For Securities Of Similar Quality	Moody Rating	Success Of Offer- ing
<i>Bonds & Debentures</i>								
12/2	\$75	Consolidated Edison 1st & Ref. 5½s 1989	101.52	.74C	5.15%	4.66%	Aa	d
12/3	16	Arkansas-Louisiana Gas 1st (s.f.) 5½s 1979	99.69	1.00N	5.15	4.94	A	a
12/8	8	Worcester County Electric 1st 5½s 1989	101.12	.94C	5.30	4.71	Aa	b
12/9	15	Arkansas Power & Light 1st 5½s 1989	102.57	.77C	5.45	4.94	A	b
12/10	4	Missouri Power & Light 1st 5½s 1989	102.75	.90C	5.44	4.94	A	b
12/15	20	Dallas Power & Light 1st 5½s 1989	102.29	.76C	5.10	4.67	Aaa	c
<i>Preferred Stocks</i>								
12/9	3	Fall River Electric Lt. \$5.80 Pfd. Stock	102.65	2.44C	5.65	—	—	d
12/10	10	New England Power \$5.52 Pfd. Stock	102.22	1.96C	5.40	—	—	d
<i>Common Stocks—Offered to Stockholders</i>								
12/31	24	Gen. Public Utilities	22.00	*	5.09	7.1%	NA	
<i>Common Stocks Offered to Public</i>								
12/16	29	Public Service E. & G.	36.38	1.13N	4.95	6.8	a	

C—Competitive. N—Negotiated. NA—Not available. a—The issue was reported well received. b—The issue was reported fairly well received. c—It is reported the issue sold somewhat slowly. d—It is reported the issue sold slowly. *Not underwritten, but fees were paid to dealers for solicitation at rate of 30 cents per share. Source, Irving Trust Company

PUBLIC UTILITIES FORTNIGHTLY

The electric utility companies, taking advantage of the relatively high level of common stock prices, nearly doubled the amount of equity financing as compared with 1958 and sharply reduced their senior financing (especially preferred stock) because of the sharp increase in interest rates. According to a forecast by the Irving Trust Company, electric utility construction in 1960 may approximate \$3.7 billion, slightly above 1959.

Consolidated Edison's Rate Increases Do Not Settle Rate of Return

THE New York Public Service Commission on January 13th granted Consolidated Edison an increase in electric rates totaling \$14 million a year or about \$6.5 million after federal and state taxes. This would be equivalent to some 43 cents a share, of which a small part would not accrue during 1960. The com-

pany already had received an increase of \$8.4 million effective June 15, 1959, representing a step-up in the minimum service charge per kilowatt-hour from \$1 to \$1.25. This increase was equivalent to about 25 cents a share, of which roughly one-half would accrue in 1959 and half will be collected in 1960. On a pro forma basis 1959 earnings, as adjusted for the full annual increases, might thus approximate \$4.40; and of this amount approximately 40 cents would represent tax deferrals resulting from the use of accelerated depreciation.

The company, through Vice President Cleary, had asked the commission for an overall increase of \$31 million reflecting a 6½ per cent return on an original cost rate base for the twelve months ended June 30, 1959; Vice President Delafield had also testified that a return of 6¾-7 per cent would be needed to finance an adequate construction program over future years. However, the company more

CALENDAR OF PROPOSED UTILITY OFFERINGS

February-April, 1960

Date of Bidding Or Sale	Approx. Amount (Millions)		Method Of Offering	Moody Rating*
<i>Bonds and Debentures</i>				
2/8	\$ 25	Consolidated Natural Gas	C	Aaa
2/9	12	Texas Electric Service	C	A
2/9	12	Texas Electric Service	C	A
2/16	72	Pacific Tel. & Tel.	C	Aa
2/16	50	Duke Power	C	Aaa
2/24	20	Duquesne Light	C	Aa
2/24	14	Public Service of Oklahoma	C	Aa
2/25	25	Dayton Power & Light	C	Aa
3/1	10	General Telephone of Florida	N	—
3/15	25	Chesapeake & Potomac Telephone	C	Aaa
3/17	4	Mississippi Power	C	A
3/20	20	Louisiana Power & Light	C	A
<i>Preferred Stock</i>				
2/	15	Brooklyn Union Gas	N	
<i>Common Stock—Offered to Stockholders</i>				
3/	144	Pacific Telephone & Telegraph (rights)		
3/	2	Sierra Pacific Power (rights)		
<i>Common Stock—Offered to Public</i>				
2/3		Tampa Electric	N	

C—Competitive. N—Negotiated. *Preliminary, or rating of similar issue.

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specifically had asked for the following interim increases:

	Millions
For substitution of individual billing for certain types of conjunctural billing	\$2.8*
Adjustment of number of days billing to uniform 30 days	2.1
Increase in revenues to offset increase in gross receipts tax by New York city from 1% to 2%	3.7
10% rate increase for certain large users of electricity	8.1
Total	\$16.7

*As contracts expire over a period of six to seven years the amount would gradually rise to \$9 million.

THE present \$14 million increase seems designed to handle these specific increases, leaving the overall question of rate of return for further investigation. (The increases allowed will raise the estimated return close to 6 per cent, it is understood.) The commission refused to grant the requested increase for conjunctural billing, although it had indicated last May that it would permit elimination of the practice gradually over a period of five years. In this decision it did, however, restrict conjunctural billing to customers so billed on May 31, 1959.

Conjunctural billing is the system by which owners of more than one apartment building receive a single utility bill for all of them, thus qualifying for lower rates; however, this affects public housing projects as well as private apartment buildings and hence there has doubtless been political pressure for the retention of these lower rates. Under the decision, however, properties now enjoying the conjunctural billing privilege will only retain this as long as the properties remain in the hands of present owners or lessees; thus the commission hopes the system will eventually fade out.

Apparently the requested adjustment in the number of days' billing was also re-

fused at this time, but the 1 per cent overall increase (to offset the higher city tax) was granted. Also, the proposed 10 per cent increase for large users of electricity was raised to 12½ per cent, and the yield from \$8.1 million to \$10.2 million, making the total increase \$14 million.

\$1.2 Billion Aswan Dam and Other Foreign Hydro Developments

OUR massive foreign aid program and the loans of the World Bank, include considerable aid to backward nations for the development of hydroelectric and atomic power projects. Unfortunately, however, the biggest and most important of all, the \$1.2 billion Aswan high dam on the Nile, is being financed initially by Russia because our negotiations with Nasser fell through. The Soviet Union is making a \$93 million loan at 2½ per cent for the first stage of the project and is providing most of the equipment and technical aid; it has also now agreed to finance the second stage. (The late John Foster Dulles canceled proposed western aid totaling \$270 million several years ago when he discovered that Nasser had mortgaged Egypt's cotton crop to obtain Soviet bloc arms.)

The present project is to build a diversionary canal and two cofferdams. The second stage will be the construction of the high dam and the installation of turbines; and the projected third stage would provide for additional power production. The first step will take five years and the second another five. The reservoir will be 2.6 miles long and 436 feet high, covering nearly 2,000 square miles. Creating the largest man-made lake, it will irrigate one million acres of desert land, as well as an additional 700,000 now watered only in

PUBLIC UTILITIES FORTNIGHTLY

flood times. Hydro output is estimated at 10 billion kilowatt-hours per annum. Egypt's income from agriculture will be increased over one-third.

It looks as though the dam would have a capacity of about 1.2 million kilowatts and would thus cost about \$1,000 per kilowatt, although some of the cost should doubtless be allocated to irrigation. While Russia has planned to build the main dam on rubble-and-sand cofferdams, German engineers who made the first construction study (in collaboration with U. S. experts) are dubious that this type of cofferdam is strong enough and predict many delays. There is also considerable debate over the amount of electric power that can eventually be obtained, as well as the huge cost

of equipment needed to move the power down river to Cairo. (There are substantial difficulties toward making Aswan itself an industrial center.) At any rate, Nasser has started his project with great fanfare, bolstering his leadership in the Arabic world; and a \$60 million fertilizer plant, built with French and West German assistance, is nearly completed, quadrupling Egypt's fertilizer output.

ELSEWHERE in the "have not" world U. S. aid for big power projects is more in evidence. The \$224 million Kariba dam, completed last December on the Zambezi river in Rhodesia (300 miles downstream from the Victoria Falls), will impound more water than has ever been stored anywhere.

RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Annual Rev. (Mill.)		1/6/60 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earnings 1955-58	Price-Earnings Ratio	Div. Pay-out	Approx. Common Stock Equity
Pipeline and Integrated Systems										
\$ 5	O	Ala. Tenn. Nat. Gas	26	\$1.20(k)	4.6%	\$1.53Se	13%	11%	17.0	78% 40%
205	S	American Nat. Gas	61	2.60(L)	4.3	4.27Se	12	7	14.3	61 39
76	A	Arkansas Louis. Gas	32	.60	1.9	1.60Se	44	55	20.0	38 50
55	O	Colo. Interstate Gas	45	1.25	2.8	2.84Se	NC	8	15.8	44 24
427	S	Columbia Gas System ...	20	1.00	5.0	1.33Se	D12	18	15.0	75 42
7	O	Commonwealth Gas	6	—	—	.49De†	22	—	12.2	— 77
19	O	Commonwealth N. G. ...	22	1.00	4.5	1.57Se	D4	10	14.0	64 47
11	S	Consol. Gas Util.	22	.90(b)	4.1	1.63Oc	4	7	13.5	55 57
304	S	Consol. Nat. Gas	48	2.20	4.6	3.09Se	D3	9	15.5	71 60
368	S	El Paso Nat. Gas	32	1.30	4.1	1.61De†	D2	—	19.9	81 17
50	S	Equitable Gas	35	1.75	5.0	2.62Se	19	5	13.4	67 44
36	O	Houston N. G.	31	.80	2.6	1.52Oc	3	9	20.4	53 20
21	O	Kansas Nebr. Nat. Gas ..	44	1.80(f)	4.1	3.28Se	24	6	13.4	55 36
113	S	Lone Star Gas	39	1.80	4.6	2.32Se	2	8	16.8	78 43
77	S	Miss. River Fuel	33	1.60	4.8	2.08Ma	NC	5	15.9	77 48
28	S	Montana Dakota Util. ...	29	1.20	4.1	1.72Se	5	12	16.9	70 29
26	O	Mountain Fuel Supply ...	24	1.20	5.0	1.76Je	7	3	13.6	68 51
94	S	Natl. Fuel Gas	24	1.15	4.8	1.91Se	34	6	12.6	60 56
139	S	Northern Nat. Gas	29	1.40	4.8	1.85Se	9	8	15.7	76 33
43	S	Oklahoma Nat. Gas	26	1.24	4.8	1.95Oc	15	5	13.3	64 34
121	S	Panhandle East. P. L. ...	47	1.80	3.8	2.74De†	—	2	17.2	66 40
15	O	Pennsylvania Gas	25	1.20	4.8	2.13De†	D2	20	11.7	56 59
188	S	Peoples G. L. & Coke ...	61	2.30	3.8	3.79N	27	4	16.1	61 41
26	O	Pioneer Nat. Gas	42	1.60	3.8	2.10De†	D1	9	20.0	76 43
104	S	Southern Nat. Gas	36	2.00	5.6	1.63Se	D14	—	22.1	123 43
41	O	Southern Union Gas	24	1.12	4.7	1.40De†	D9	8	17.1	80 27
402	S	Tenn. Gas Trans.	35	1.40	4.0	1.84N	16	13	19.0	76 21
266	O	Texas East. Trans.	28	1.40	5.0	1.97Se	D24	13	14.2	71 21
104	S	Texas Gas Trans.	30	1.40	4.7	2.15Se	14	3	14.0	65 31
115	O	Transcont. Gas P. L.	22	1.20(b)	5.5	1.50Se	3	13	14.7	80 19
318	S	United Gas Corp.	33	1.50	4.5	2.39Se	D1	4	13.8	63 42
Averages					4.3%	7%	9%	15.8	68%	

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Annual Rev. (Mill.)	(Continued)	1/6/60 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earnings 1955-58	Price-Earnings Ratio	Div. Pay-out	Approx. Common Stock Equity
<i>Retail Distributors</i>										
34 S	Alabama Gas	29	\$1.60	5.5%	\$1.85Se	D27%	1%	15.6	86%	35%
57 O	Atlanta Gas Light	36	1.80	5.0	2.17Oc	D11	6	16.6	83	39
3 O	Berkshire Gas	19	1.00	5.3	1.30Au	7	6	14.6	77	41
7 A	Bridgeport Gas	32	1.68	5.3	2.23Se	10	7	14.3	71	46
6 O	Brockton-Taunton Gas ..	19	1.00	5.3	1.30De†	10	18	14.6	77	46
79 S	Brooklyn Union Gas	29	1.20	4.1	1.63Se	1	8	17.8	73	44
45 O	Central Elec. & Gas	23	1.20	5.2	1.72Se	15	9	13.4	70	18
13 O	Cent. Indiana Gas	14	.80	5.7	.75Se	D33	13	18.7	107	57
6 O	Chattanooga Gas	4	—	—	.32Au	D36	—	12.5	—	44
15 O	Consolidated Gas	34	1.60	4.7	2.67Oc	D17	13	12.7	60	78
68 O	Gas Service	33	1.52	4.6	2.43Se	D9	11	13.6	63	36
9 O	Hartford Gas	40	2.00	5.0	2.45Je	16	—	16.3	82	51
3 O	Haverhill Gas	28	1.60	5.7	2.05N	—	11	13.7	78	53
20 O	Indiana Gas & Water ...	22	1.00(b)	4.5	1.47N	D2	9	15.0	68	45
55 S	Laclede Gas	21	.90	4.3	1.10Se	D15	5	19.1	82	36
6 O	Mich. Gas Utils.	25	1.05	4.2	1.48Se	22	4	16.9	70	34
44 O	Minneapolis Gas	29	1.50	5.2	1.96Se	14	5	14.8	76	46
17 O	Miss. Valley Gas	23	1.20	5.2	1.98Se	D15	7	11.6	61	34
6 O	Mobile Gas Service	26	1.10	4.2	1.25Se	D29	6	20.8	88	37
8 O	New Haven Gas	38	2.00	5.3	3.07De†	30	11	12.4	65	67
15 O	New Jersey Nat. Gas ...	22	.90	4.1	1.33Je	D2	—	16.5	68	34
91 O	No. Illinois Gas	30	1.00	3.3	1.66N	14	—	18.1	60	54
10 O	North Penn Gas	11	.60	5.5	.91Je	13	10	12.1	66	60
18 O	Northwest Nat. Gas ...	17	.72	4.2	*1.25Se	33	—	*13.6	58	36
285 S	Pacific Lighting	52	2.40	4.6	2.58Se	D12	8	20.1	95	42
11 O	Piedmont Nat. Gas	15	.50	3.3	.73Se	D21	15	20.6	68	31
2 O	Portland Gas Lt.	17	.75(m)	4.4	2.31De†	128	21	7.4	32	27
10 A	Providence Gas	10	.56	5.6	.64Je	D1	5	15.6	88	50
4 A	Rio Grande Valley Gas ..	4	.16	4.0	.38Je	20	9	10.5	42	55
6 O	So. Atlantic Gas	14	.80	5.7	1.22Se	27	5	11.5	66	32
14 S	So. Jersey Gas	25	.90	3.6	1.28N	11	14	19.5	70	50
34 S	United Gas Impr.	52	2.40	4.6	3.45Se	13	5	15.1	70	54
60 S	Wash. Gas Light	49	2.24	4.6	3.48Se	4	10	14.1	64	37
14 O	Wash. Nat. Gas	21	(g)	—	1.35Se	150	5	15.6	—	40
10 O	Western Ky. Gas	16	.60(i)	3.8	1.39Se	D5	3	11.5	43	41
Averages				4.7%		9%	10%	15.0	70%	



RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Annual Rev. (Mill.)		1/6/60 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Incr. In Sh. Earnings 1955-58	Price-Earnings Ratio	Div. Pay-out	Approx. Common Stock Equity
<i>Communication</i>										
\$6,771 S	Amer. T. & T. (Cons.) ..	82	\$3.30	4.0%	*\$5.05Au	12%	4%	*16.2	65%	65%
329 A	Bell Tel. of Canada	45	2.20	4.9	2.46Se	7	—	21.0	93	64
47 O	Cin. & Sub. Bell Tel. ...	89	4.50	5.1	5.15De†	5	—	17.3	88	76
255 A	Mountain Sts. T. & T. ..	169	6.60	3.8	9.51Se	4	4	17.8	69	76
354 A	New Eng. T. & T.	37	1.72	4.6	2.19Se	28	6	16.9	79	62
937 S	Pacific T. & T.	29	1.14	3.9	1.42N	12	1	20.4	80	61
119 O	So. New Eng. Tel.	45	2.20	4.9	2.75Je	13	7	16.4	80	61
Averages				4.4%		12%	3%	18.0	80%	
<i>Independents</i>										
6 O	Anglo-Canadian Tel.	36	\$1.20	3.3%	\$3.13Se	1%	21%	11.5	38%	52%
45 O	British Col. Tel.	44	2.20	5.0	2.64Se	39	—	16.7	83	28

PUBLIC UTILITIES FORTNIGHTLY

Annual Rev. (Mil.)	(Continued)	1/6/60 Price About	Dividend Rate	Approx. Yield	Recent Share Earnings	% Increase	Aver. Inc. In Sh. Earns. 1955-58	Price-Earnings Ratio	Div. Pay-out	Approx. Common Stock Equity
4	O Calif. Inter. Tel.	14	.70	5.0	.92Se	10	NC	15.2	76	24
22	O Calif. Water & Tel.	27	1.28	4.7	1.96Se	24	2	13.8	65	37
20	O Central Tel.	23	.88(b)	3.8	1.72Se	14	5	13.4	51	33
5	O Commonwealth Tel.	19	.90	4.7	1.35Je	D6	15	14.1	67	35
5	O Florida Tel.	29	1.00	3.1	1.21My	21	—	26.4	83	42
552	S General Tel. & Elec.	83	2.20	2.7	3.12Se	3	NC	26.6	71	34
21	O Hawaiian Telephone	20	1.00	5.0	1.26Oc**	12	4	15.9	80	48
8	O Inter-Mountain Tel.	16	.80	5.0	.91De†	D3	—	17.6	88	54
23	S Rochester Tel.	26	1.00	3.8	1.59Je	16	4	16.4	63	33
11	O Southwestern St. Tel.	23	1.20	5.2	1.36Je	D14	—	16.9	88	37
38	O United Utilities	41	1.45	3.5	1.64De†	6	3	25.4	89	36
16	O West Coast Tel.	25	1.20	4.8	1.54Se	30	—	16.2	78	32
255	S Western Union Tel.	50	1.40	2.8	1.89De†	D7	—	25.4	74	85
Averages				4.2%		10%	8%	18.1	73%	
Transit Companies										
20	O Baltimore Transit	8	\$1.00	12.5%	\$.58De†	D43%	—	13.8	172%	48%
12	O Cincinnati Transit	7	.30	4.3	.31De†	D40	—	22.6	97	54
65	S Fifth Ave. Lines	15	—	—	.02De†	D99	—	—	—	75
305	S Greyhound Corp.	21	1.00(p)	4.8	1.23De†	1	—	17.1	81	50
25	S Nat. City Lines	27	2.00	7.4	1.69De†	D38	—	16.0	118	94
13	O Niagara Frontier Trans. .	11	.60	5.4	.10De†	D87	—	—	—	67
17	A Pittsburgh Rys.	11	.25	2.3	.03Se	—	—	—	—	90
6	O Rochester Transit	6	.40	6.7	.86De†	34	9	7.0	47	100
21	O St. Louis P. S.	11	1.00	9.1	.68De†	4	—	16.2	147	97
14	S Twin City R. T.	8½	—	—	.24De†	D70	—	—	—	65
19	O United Transit	7	.70	10.0	.75De†	D4	—	9.3	93	55
Averages				6.9%		D34%	—	14.6	108%	
Water Companies										
Holding Companies										
43	S American Water Works .	16	\$.60	3.8%	\$1.32Se	37%	—	12.1	45%	19%
Operating Companies										
5	O Bridgeport Hydraulic ...	33	\$1.70(f)	5.2%	\$1.75De†	D15%	2%	18.9	97%	53%
16	O Calif. Water Service ...	25	1.20(j)	4.8	1.72N	5	1	14.5	70	36
4	O Elizabethtown Water ...	50	2.00	4.0	3.78De†	D3	11	13.2	53	59
11	S Hackensack Water	49	2.00	4.1	4.14Se	NC	—	11.7	48	35
9	O Indianapolis Water	25	1.00	4.0	1.22De†	D4	5	20.5	82	36
6	O Jamaica Water	41	2.20	5.4	3.21Se	D4	1	12.8	69	27
5	O New Haven Water	67	3.40	5.1	3.32De†	9	5	20.2	102	61
2	O Ohio Water Service	27	1.50(b)	5.6	1.75Se	7	—	15.4	86	31
9	O Phila. & Sub. Water ...	50	1.60(e)	3.2	2.75Je	D7	—	18.2	58	27
2	O Plainfield Un. Water ...	62	3.00	4.9	4.31Ma	D3	3	14.4	70	64
5	O San Jose Water	31	1.30(f)	4.2	2.25N	19	12	13.8	58	41
11	O Scranton-Springbrook ...	23	1.00	4.3	1.63Se	4	4	14.1	61	25
5	O South. Calif. Water	20	1.00	5.0	1.32Se	20	6	15.2	76	33
4	O W. Va. Water Service ..	21	.68(d)	3.2	1.66Se**	7	—	12.6	41	18
Averages				4.5%		3%	4%	15.4	70%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; Oc—October; N—November; De—December. NC—Not comparable. NA—Not available. D—Decrease. *On average shares. **Includes tax savings from accelerated depreciation. †December, 1958. (a) Adjusted to eliminate 13 cents per share of nonrecurring tax savings. (b) Also 20 per cent stock dividend January 15, 1960. (d) Also 1 per cent stock dividend quarterly. (e) Also 3 per cent stock dividend January 7, 1960. (f) Includes extras. (g) Five per cent stock dividend April 10, 1959. (i) Also 5 per cent stock dividend December 29, 1958. (j) Also 5 per cent stock dividend March 19, 1959. (k) Also 20 per cent stock dividend March 9, 1959. (L) Also 10 per cent stock dividend June 10, 1959. (m) Also 10 per cent stock dividend January 15, 1960. (n) Excludes profit realized on sale of Los Angeles Transit \$3.81 per share. (p) Also 5 per cent stock dividend June 30, 1959.



What Others Think

Regulation of Communications *versus* Censorship

JUST about every aspect of the Federal Communications Commission's regulatory authority is being scrutinized by some one of the various groups now looking into the "payola" scandal. In the midst of all of the charges and countercharges FCC Chairman Doerfer has made some trenchant observations regarding his agency's responsibilities and problems. Chairman Doerfer's address was made before the Federal Communications Bar Association at the Statler Hilton Hotel in Washington, D. C., in the early part of January.

Chairman Doerfer observed that recent events had called for a re-examination of the FCC's functions and the extent of its regulatory authority. He emphasized that while the portion of the spectrum allocated to broadcasting received most attention, this is not the major part of the commission's responsibilities. A government agency which has jurisdiction over a private enterprise engaged in performing highly personalized service is bound to receive more criticism than would an agency which exercises regulatory functions over utilities such as electric power, gas, and water companies. These latter industries are more indirect in their personal service than radio and TV and, therefore, less likely to receive pointed and interminable complaints. With this fact in mind, Chairman Doerfer stated:

A regulatory agency cannot permit itself to be wafted along the varying winds of every storm; it would soon lose its usefulness. I do not mean to say that it should be oblivious to any criticism. It should have the duty to sort out reasonable complaints and to evaluate suggested remedies in the scale with the longer enduring values for which it was created. It should be cautious less it takes or recommends steps which may militate against the ultimate best interests of the public.

THE pressing problems which now confront the FCC—problems which must be resolved in the near future—were listed as the following:

(1) Does the prime responsibility for providing for the "public interest, convenience, and necessity" rest upon the broadcasters or upon a government agency?

(2) If the prime responsibility rests with the government agency, then to what extent shall the agency be concerned with the whole or any part of what is broadcast?

(3) Is the "public interest, convenience, and necessity" to be achieved by a combination of regulation and the competitive process?

(4) If the two systems are to be

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combined, then what part is each to play and what must the agency do in order to effectuate the intent of Congress?

(5) If the government is to play the prime regulatory rôle then are the powers of the Federal Communications Act—expressed or implied—sufficiently clear to remove doubts which apparently have plagued the FCC?

(6) How shall the "public interest, convenience, and necessity" be balanced against the "censorship" provision of the Communications Act so that no violence is done to either?

(7) Is censorship confined to prior restraint or does it include imposing fears of subsequent punishment?

(8) Apart from violations of specific laws (obscenities, lotteries, frauds, etc.), if you cannot censor the contents of a single program, can an agency appraise the contents of a combination of programs to determine whether they are "in balance" or meet the community interests before granting a renewal in a noncontested application?

(9) Who is to determine the public needs of a service area and how is this to be determined?

(10) With respect to quiz shows and advertising matter, shall the law recognize a species of frauds and deceits not heretofore legally cognizable?

(11) Shall others than the licensees be made responsible for surreptitious sponsorships, latent frauds, or deceits ("payola")?

(12) If sanctions are permissible how are they to be imposed and how can their standards be stated so as to be understood by all licensees, and objectively administered by the commission and its staff?

sions pointing to an incontestable interpretation of the twelve questions just listed. He further stated that

The very fact that the commission, made up of men of different walks of life, of different political parties, the past twenty-eight years has never been able to consistently and conclusively resolve these renewal problems, indicates to me not laxness, nor an abandonment of duty, nor lack of courage, but reasonable doubts and practical difficulties of reconciling some of the fundamental conflicting views.

CONCERNING censorship sections of the Communications Act, Mr. Doerfer asked if free speech was only limited to the communication of political, religious, and sociological ideas in the printed media or does it include the artistic and entertainment expressions as well? He asked if censorship was confined only to "prior restraint" of particular programs and cited the following language from the *Thornhill v. Alabama* case (310 US 88):

The freedom of speech and of the press guaranteed by the Constitution embraces at least the liberty to discuss publicly and truthfully all matters of public concern without previous restraint or fear of subsequent punishment.

Mr. Doerfer seems to feel that the censorship question hinges on the "public interest" section of the Communications Act.

Is this section to be considered a sort of "general welfare clause" or is it a specific but all-pervasive authorization which overshadows the censorship section of the Communications Act and the First Amendment of the Constitution to the extent that the latter is confined to prior re-

MR. DOERFER pointed out that there were no explicit statutory provi-

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"THIS IS THE PILOT PLANT, ISN'T IT?"

straint of specific programs? Does this "public interest" permit the commissioners to determine what is the "more important interest" at any particular time for a given community or service area? He pointed out that the Supreme Court in *United States v. Butler et al.* (297 US 1) had refused to permit the "general welfare clause" of the U. S. Constitution to override specific constitutional provisions.

MR. DOERFER noted that in 1946 the commission drafted a report, entitled "Public Service Responsibility of Broadcast Licensees" (better known as

the "Blue Book"), and that this report concluded that the prime responsibility for the American system of broadcasting rests with the licensee of broadcast stations, including the network organizations. According to this report the commission had the responsibility to consider "overall program service."

THE vital question today, according to Mr. Doerfer, is will the Federal Communications Commission become a "Supreme Board of Censors"? How far can this commission go to achieve balance in programs and encourage more public

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service programing and still observe the fundamental law of the land?

In conclusion, Mr. Doerfer alerted the members of the Federal Communications Bar Association to the tremendous implications involved in these questions. He called upon them for their help and he

cautioned that the implications contained in "public interest, convenience, and necessity" *versus* "censorship" are of such profound nature that no matter which course is taken the future of the American system of broadcasting will be profoundly affected.

Columbia River Dam Agreements

A. ROBERT SMITH, Washington correspondent for the *Portland Oregonian*, has written a series of articles in which he traces the terms of agreement reached by the International Joint Commission for power and flood control of the upper Columbia river by the United States and Canada.

Mr. Smith points out that in spite of the agreement much of the hard bargaining still remains to be done some time in the future. One point not touched upon by the agreement is the possible diversion of the Columbia into the Fraser river system and Canada still holds this possibility as a trump card—for possible future use. However, it is doubted that this card will be used.

According to Mr. Smith the most specific principle contained in the 30-page document is a 50-50 sharing of the power output added to downstream dams resulting from Canadian storage projects. In addition, the United States would pay cash to Canada for one-half the flood benefits to the United States that result from Canadian water storage projects.

The general principles of the agreement are: (1) Development of the Columbia requires that storage facilities and downstream power production be added in the order of the most favorable benefit-cost ratio. (2) Co-operative development should result in advantages or savings in costs to each country as compared with alternatives available in that country. (3)

Benefits from downstream projects, in transboundary facilities, should be determined by crediting to each country such portion of the storage capacity and head potential of the project as may be mutually agreed. Mr. Smith states:

This was more specific in an earlier draft, applying to Libby dam. Later negotiations will have to develop the specifics in terms of kilowatts to go to Canada from this dam in western Montana on the Kootenay river.

THE power principles agreed upon by the International Commission are the following:

(1) Downstream power benefits in one country should be determined on the basis of an assured plan of operation of storage in the other country. (Mr. Smith observes that this means that Canada agrees to operate its storage dams so as to provide maximum amounts of water for downstream American power plants.)

(2) Power benefits from upstream projects should be estimated in advance, to the mutual satisfaction of both the upstream and downstream countries and these estimates will be subject to review every five years.

(3) Amounts of power benefits considered to result in downstream areas from storage in upstream country should be determined by computing the difference between the amount of power that would

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be produced at the downstream plant with and without such storage and regulation of flow.

(4) The amount of power benefits to downstream areas, derived from upstream regulation, would be expressed as the increase in dependable hydroelectric capacity in kilowatts under an agreed-upon stream flow condition.

(5) When it is necessary to assign monetary values to downstream power benefits the two countries will make such evaluations on the basis of the cost of obtaining equivalent power from the most economical alternative source.

(6) Power benefits shall be shared so that the power benefits to both countries will be equal.

(7) Interconnection and co-ordination of electrical power systems, to the extent practicable and desirable, would provide mutual benefits.

MR. SMITH points out that the crux of the Columbia river dispute with Canada centers on the proposed Libby dam in western Montana on the Kootenay river. The power and flood-control dam cannot be built without Canadian consent since its reservoir would cross the U. S.-Canadian border. The announced agreements listed above are the first major steps toward the completion of this dam since Congress authorized construction in 1950.

These agreements also raise the hope that Canada will now build the Mica Creek dam which Mr. Smith states would "possibly be the most valuable single project in the entire Columbia watershed." The Mica Creek dam in British Columbia would be situated about 200 miles north of the border. A 740-foot high dam, the world's largest, would impound a 73-mile-long reservoir which would store 11,685,000 acre-feet of water. This storage

capacity is over twice the amount stored at Grand Coulee dam. The generating capacity at Mica Creek would be from 1,160,000 to 1,624,000 kilowatts. Regarding this huge facility, Mr. Smith states:

What makes this a magnificent project from a U. S. viewpoint is the vast quantity of water, stored during high water season, that would be released to increase the power production of downstream American hydroelectric plants. The effect would be electrifying, literally.

IF the Mica Creek dam is constructed, along with several smaller projects, it would enable increased power production in all dams from Grand Coulee to Bonneville downstream. The additional supply of water would necessitate the construction of additional generating facilities; however, it is estimated in Mr. Smith's article that water would be available to boost Grand Coulee's electrical output by 50 per cent. The Joint Commission estimated that better control of water—storing during spring runoffs—could result in more than double the total U. S. power output, bringing the figure close to 13 million kilowatts. (This figure was arrived at by using a critical water year as a base.)

Canadian power gains would not be of such magnitude, and this is one reason why Canada has held out on the Libby dam until agreements could be reached assuring that U. S. power gains would be shared on an international basis. In addition, Canadian storage dams will make flood-control goals attainable at reduced cost to the United States.

Mr. Smith's article does much to explain the various aspects of the International Joint Commission's agreements. Much work still remains to be done. There are bound to be minor disagreements; and

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diplomacy, be it on the subject of water or atom bombs, is never easy. However, the strides made by the commission point

to increased co-operation between two nations which share close ethnic ties and who also share many natural resources.

Public Power Group Holds Washington Meeting

IN mid-January the Electric Consumers Information Committee held a two-day workshop in Washington, D. C., on the subject of "A Sound Federal Money Policy to Save the Consumer's Power Program." The conference was attended by some sixty-five to seventy-five representatives of co-operatives and labor unions and, in general, furnished a sounding board for arguments in favor of greater expansion activities—particularly by the federal government—into the field of electric power service.

The tenor of the meeting was one of rather partisan type criticism of the Eisenhower administration, with frank hopes expressed for a Democratic victory in November. The criticism stemmed from a condemnation of the "tight money" policies, high interest rates, reluctance to authorize a number of hoped-for "new starts," and a general feeling that the administration has been less than completely committed to the policy of public power.

Alex Radin, general manager of the American Public Power Association, took over the chairmanship of the meeting when Clyde T. Ellis, general manager of the National Rural Electric Co-operative Association, resigned due to a dispute with a local office workers' union. Mr. Radin enumerated the aims of the workshop as the following: (1) to accelerate the hydro-electric program in the United States; (2) to accelerate the atomic energy program; (3) to battle for lower interest rates; (4) to meet the propaganda against federal projects; (5) to facilitate the authorization and cost allocation of government

projects; (6) to promote more effective "working together" to produce low-cost power; (7) a policy of rededication to low-cost and abundant electrical power.

THE following congressional figures addressed the meeting: Senators Engle (Democrat, California), Moss (Democrat, Utah), and Representatives Oliver (Democrat, Maine), Johnson (Democrat, Colorado), Holifield (Democrat, California), and Santangelo (Democrat, New York). A broad variety of topics was touched upon by these congressional spokesmen. They ranged from the atomic energy program to the need for additional "new starts" in federal projects.

Representative Byron Johnson charged that the administration is feeding inflation. He said that the President's Budget Message assumed that high interest rates are here to stay and he commented that this was a sad observation since the more interest rates climb the more it costs to borrow money.

He told the meeting that Congress is likely to keep the cost of money down. It was his belief that the entire monetary, credit, and fiscal program should be re-examined so that economic growth could take place without inflation.

SENATOR Engle spoke to the group on the subject of "Danger Points to Public Power in 1960." He stated that groups which supported the Electric Consumers Information Committee were entitled to commendation. He listed these groups as the National Rural Electric Co-operative

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"THIS IS YOUR LIFE . . ."

Association, the American Public Power Association, the AFL-CIO, the Farmers Union, the National Grange, the Northwest Public Power Association, and the Hells Canyon Association.

He noted that Congress has been deluged with proposals to water down the laws that make power cheaper, and he stated that bills favorable to public power have not received the support of the Eisenhower administration. He stated:

. . . Whenever possible the administration of existing laws has been distorted

to impair the established national power policy as imbedded in the statute books. So far, none of these laws have been repealed. Sometimes they haven't been executed as they should. But they are still on the books. A Federal Power Commission has been appointed that does not agree with the power policy written by Congress. The present Federal Power Commission is not interested particularly in protecting the consumer. The Bureau of the Budget has taken a stranglehold on new projects. Federal public power development has been

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either completely stopped or delayed because the officials in this administration are not in favor of public power.

SENATOR Engle noted that the current session of Congress will be rushed, in that the members will have to get on to the business of running for office and attending the political conventions in order to elect a President. He warned that electric consumer organizations will have to be alert so that some proposal which would adversely affect their industry is not slipped through Congress undetected. As an illustration during the past year, he mentioned the so-called "partnership" program which is advocated by the administration. He noted that during the last session of Congress the House Interior Subcommittee tabled a bill which would have put the "partnership" proposal into effect. He cautioned the group that \$20 million will have to be appropriated during 1960 to get federal construction of powerhouses beyond the planning and design stages. He noted that some effort may be made to block funds for the Trinity powerhouses and he welcomed the continued support of the Electric Consumers Information Committee regarding this project.

Engle thinks that the proposed intertie line between the Columbia river power plants and the Central Valley project in California should be joined by a federal intertie rather than by a private system which the administration proposes. He doubted that the President would sign legislation which provided for a federal intertie and that the best that could be hoped for would be to prevent the execution of a contract which would put the system in the hands of private utilities. He stated that this holding action would have to continue until after the first of next year, "When I hope we will again have a Democratic President."

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REPRESENTATIVE Holifield spoke on the topic of "Recent Developments Affecting the U. S. Atomic Power Program." He observed that the rosy predictions made by the Atomic Energy Commission for economic atomic power have not been achieved. He stated that in 1955 the AEC foresaw 2 million kilowatts of nuclear power capacity in service by the end of 1960 and he stated that it now appears that less than 400,000 kilowatts will be in operation by the end of the year.

He noted that the Shippingport reactor had been shut down since October for replacement of fuel elements and will not be back in operation until the spring. The AEC's boiling water reactor will not be in operation until late this year and the sodium reactor experiments have been shut down since October of last year to rectify fuel failures. Representative Holifield stated that these shutdowns do not indicate a lack of progress but they do illustrate the technical problems encountered in the development of the atom. Many people underestimated the technical problems that had to be solved and these in turn raised costs and produced delays.

HOLIFIELD questioned the wisdom of emphasizing three basic reactor concepts—pressurized water, boiling, and organic-cooled and -moderated—and he stated that "we may not know enough yet to put most of our eggs in only two or three baskets." It was his feeling that key program decisions are being made more and more by bookkeepers and budgeteers rather than by technical authorities. He concluded:

If the development of low-cost nuclear power were to achieve a saving in fuel costs of no more than one-tenth of a cent per electrical kilowatt-hour, this would mean savings to the American consumers by 1975 of more than \$2

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billion *per year*. We can well afford to invest another \$100 to \$150 million per year now in accelerating atomic power development. When the potential economic gains are considered, we cannot afford not to.

Congressman Holifield charged that the accomplishments of the publicly subsidized, privately sponsored programs have fallen short of what was promised and expected. He assumed that the Joint Committee on Atomic Energy would, during the current session, give some attention to the gaps in the atomic power development program. He believes that consideration of a natural uranium reactor is of great importance since it would mean saving the power and the coal consumed in making enriched uranium fuel. Another concept that the Congressman believes is worth looking into is the steam-cooled reactor, which is a variant of the nuclear superheat concept. He also called for consideration of the 20,000-kilowatt program which has been suggested for Guam.

CONCERN was expressed by Congressman Holifield over the attitude which seems to be growing as a result of Soviet announcements that they are cutting back on their atomic power program. He assured the meeting that he was strongly in favor of reducing tensions between the United States and Russia but he observed that it would be foolhardy to relax our efforts in the field of atomic power development.

He called for increased effort to keep America ahead in the field of atom power development and he cited the increase in power demands that will take place in the coming decades. It is his belief that the sooner we have an additional low-cost power supply the better America will be in a long-term sense. To this end Repre-

sentative Holifield pledged that he would continue his efforts for a strong, co-ordinated, and purposeful federal program for development of nuclear power.

PROFESSOR Horace M. Gray of the University of Illinois noted that monopolies divert resources into their own hands which might otherwise go to the consumer or to the public good. He called for an elimination of tax evasions which, he said, often take place when companies build plants which are not needed.

One of the most striking points of Professor Gray's address was his call for the establishment of a National Investment Board, which would allocate funds and invest in the public economy. Such a board would receive appropriations from Congress and would also have borrowing power and the ability to sell debentures on the public market. He recalled boards of this type which have existed in the past—the Public Works Administration, Farm Credit system, etc.—but his suggestion was for a kind of superinvestment group.

Gray, by way of summary, concluded:

The resources of this nation are ample to sustain both a flourishing private economy and a strong public economy commensurate with modern needs. The problem is to secure a balanced allocation of resources between the two sectors. As I have indicated, our present institutional arrangements are powerfully biased toward the private and against the public economy. This institutional bias results in gross inflation of the private economy and chronic malnutrition and deterioration of the public economy. My suggestions seek to correct this imbalance and to restore a better functional relation between the two sectors by shifting the allocation of resources.

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ANGUS McDONALD, co-ordinator of the legislative services for the National Farmers Union, spoke to the group on the subject of "The Tight Money Policy and the Farmer."

McDonald stated that the farmer is one of the chief users of credit and that a great part of the farm equipment of the nation is bought through the credit system.

With these views in mind his plea was for low interest rates.

There were a number of other speakers during the two-day session but the general plea of the conference was for lower interest rates, more new starts, increased activity by the federal government in power generating and distribution, and the federal development of atomic energy.

Notes on Recent Publications

DISCIPLINE AND DISCHARGE IN THE UNIONIZED FIRM, by O. W. Phelps, University of California Press, Berkeley, California. 149 pp. Price \$5.

The subject of management's personnel function in the union shop has been examined in this new publication. Mr. Phelps, a professor at Claremont Men's College, contends that the union members' protection from arbitrary discharge is probably the greatest single benefit derived from membership. In most industries today management must exercise its personnel function—frequently a disciplinary one—with in the framework of union contracts, grievance settlements, and arbitration awards. This book examines this area of labor-management relations.

GUIDE TO NIGHTTIME HIGHWAY SAFETY. Street and Highway Safety Lighting Bureau, Cleveland, Ohio. A 23-page pamphlet.

The Street and Highway Safety Lighting Bureau has recently issued this pamphlet to better inform the public of the advantages of highway lighting. The shocking toll of highway accidents has prompted the publication of this pamphlet, which notes the greatly increased safety of lighted highways.

Of particular interest is a table which contrasts fatalities in areas which had no lighting and which then installed lights. Some of the figures quoted are little short of astounding. In a 31-mile thoroughfare

in Hartford, Connecticut, fifty-eight deaths were noted in the year before the installation of lights. One year after a lighting system came in use, only thirteen fatalities were recorded on the same stretch of highway.

BETH WHEELER has recently authored a book entitled "*How to Help Your Husband Relax*." The 239-page volume has been published by Doubleday & Company, Inc., and it can be obtained at local bookstores at a cost of \$3.95.

Mrs. Wheeler is the wife of top-notch salesman and author Elmer Wheeler and she has taken a look at the problems of the rushed executive and offers some worthy comments and practical suggestions on a host of subjects ranging from heart attacks, food, alcohol, and working wives to retirement.

In the past few years we have had a rash of "wheat-germ" nostrum literature which guarantees that this or that system or food will produce a long and prosperous life. This book, fortunately, is not another of this "gimmick" type. Mrs. Wheeler's book is simply a sensible approach to life. It is succinct and lightly written but it contains a world of truth that may pull the rushed executive to a sudden halt. After reading the book it is probable that the words, "I'm too busy" will be eliminated from your vocabulary—and your wife will probably have had a hand in it.

The March of Events



New AEC Proposals

THE Atomic Energy Commission has invited proposals, under its Power Demonstration Program, for building two prototype nuclear power plants, each with a minimum capacity of 50,000 electrical kilowatts. One plant would have a boiling water reactor, the other would contain an organic-cooled and-moderated reactor.

Government, co-operative, and investor-owned utilities may participate. They would design, build, and operate the plant. AEC would support research and development and would waive fuel use charges during the first five years of operation.

Consumers Power Company and the General Electric Company have jointly filed a proposal with the AEC to build the 50,000-kilowatt boiling water-type nuclear plant at a cost of \$27 million. Five proposals to operate a small nuclear power plant have been received by the AEC from co-operative and public power organizations. The purpose of the project, created by AEC, is to develop a small pressurized water nuclear power plant which will operate economically. The proposals submitted were from Miamisburg, Ohio; Detroit, Michigan; Jamestown, New York; Fort Pierce, Florida;

and Dairyland Power Co-operative, La Crosse, Wisconsin.

Rural Electrification Report

THE Edison Electric Institute has issued a booklet, entitled "Rural Electrification in the United States," which states that now electricity is available to most every farm and a challenge is presented to the electric industry to strive for complete farm mechanization.

In 1830 one farm worker produced enough agricultural products for four people. Today he produces enough for almost twenty people. Forty-three per cent of the farms receiving electric service in 1958 were served directly by investor-owned companies. Indirectly, these companies serve additional farms by supplying electricity at wholesale rates, to two-thirds of the REA co-ops.

The booklet also reports that some 40 per cent of the electricity distributed by these co-ops in 1958 was supplied to them by electric companies. In 1958 American farms each used an average of 5,323 kilowatt-hours of electricity, or a total of nearly 25 billion kilowatt-hours a year. Electric companies envision 15,000 kilowatt-hours of electricity for each farm per year by 1975, which will make a total of 68 billion kilowatt-hours annually.

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California

Los Angeles May Get Nuclear Plant

WITH the help of the Atomic Energy Commission, a nuclear reactor power plant may be built in the city of Los Angeles for the generation of electricity for local use.

AEC Chairman McCone said proposals would be received by the commission for construction of two 50,000-kilowatt plants in the nation. An application will be made for the establishment of one of the plants in Los Angeles, according to

the manager of the city's Water and Power Department.

The AEC said it is inviting proposals from publicly and co-operatively owned utilities for construction of the plants. Because the Los Angeles department has been making long-range preparations for such a facility, and because it is the largest municipally operated utility in the nation, it stands a good chance of obtaining a nuclear plant. Under the AEC arrangement, the federal government would build the power-generating facilities and the utilities would operate the entire plant.

Kentucky

Utility Offers to Pay More Taxes

THE Kentucky Utilities Company has announced it is willing to pay more taxes to the cities to which it supplies electric service. Kentucky Utilities' president, F. I. Fairman, said the idea stems from the realization that many of the cities involved are experiencing an ever greater difficulty in keeping expenses within the income produced by their taxes. Consequently, he said, Kentucky Utilities has developed a plan for franchise tax pay-

ment amounting to 3 per cent of its revenue from each city's residential and commercial electric customer.

Fairman said this payment could be made without an increase in present rates. He stated further that because the federal and state governments receive so much of taxes paid, the tax sources of cities are limited. Kentucky Utilities hopes the new plan will stimulate the growth of towns and cities it serves and thereby increase the amount of power consumed.

Maryland

Transportation Authority Planned

PLANS for a metropolitan transportation authority or public ownership have been debated for years in Baltimore. In 1959 a bill was proposed but it died in the legislative session. As a result Governor Tawes appointed an executive study commission headed by Delegate Francis X. Gallagher of Baltimore.

The commission has encountered opposition on a plan that now provides basically for an authority that could either subsidize public transportation in the metropolitan area or own it outright after an initial shakedown phase.

Gallagher is going to determine whether to ask for a special session of the Maryland legislature immediately following its regular session in March. The state at-

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torney general has already notified him that an essentially local measure cannot be introduced in the regular even year, 30-day session. In view of the fact that the contract between transit workers and the

Baltimore Transit Company is due to expire this fall, it is important that some action be taken on the authority idea. Public hearings on the proposal will be held, Gallagher has announced.

Nebraska

Two Gas Companies to Merge

COUNCIL BLUFFS GAS COMPANY has agreed to merge into Northern Natural Gas Company of Omaha, according to Carl M. Stephens, president of the Council Bluffs concern. The transaction, which will be made through an exchange of stock, will probably be completed in March. The amount of stock to be transferred was said to be worth about \$5 million. Present stockholders of Council Bluffs Gas acquired the company in 1942 from the Lone Star Gas Company for \$1.5 million. They will receive about 180,000 shares of Northern common stock.

The president of the Council Bluffs concern said acquisition by Northern will enable his company's gas division to expand its industrial activities and make more funds available for the expansion of the distribution system. Gas sales of Council Bluffs in 1959 were in excess of

10 billion cubic feet, Stephens reported.

Wholesale Gas Rates Up

INCREASED wholesale gas rates for Lincoln's surrounding communities went into effect near the end of 1959, according to Central Electric & Gas Company. Northern Natural Gas filed for an increase of about \$10.7 million on June 26th, but as a result of action taken by Central Electric and other Northern customers, the application was suspended for five months.

Recently Northern filed a revised schedule which dropped the requested increase to \$9.8 million. Central, in the three pending cases, has increased its retail gas rates to cover costs. The increases are being collected under refunding bond pending final determination by the Federal Power Commission. Central Electric & Gas as well as other customers are opposing the rate increases.

Oregon

Power Rate Resolution

OREGON's public utilities commissioner has been asked by a resolution passed by the Portland city council to set electric power rates in Oregon so that rates in Portland would be no higher than those in any other community in the state.

At present the commissioner has applications for rate increases from Pacific Power & Light Company and Portland General Electric Company under consideration.

The resolution said that electric rates

"have heavy impact upon the ability of any area to attract business and industry and must be taken into account by any business in seeking a new location."

The resolution also states that some electric rates in the Portland area are higher than rates in Clark county on the other side of the Columbia river, higher than certain other competing cities in the Pacific Northwest, and higher than certain other areas in Oregon where these utility companies face competition from other sources.

Pennsylvania

Profitable Transit Called Impossible

IT is impossible to operate a mass transit system at a profit, the Pittsburgh agent of the New York Port Authority said recently. "That's why we never got into bus and subway operation in New York," said Lloyd L. Harvey. "We're self-supporting."

The New York Port Authority operates four airports and a heliport, two tunnels, four bridges, a bus terminal, grain terminal, truck terminals, and piers in New York and New Jersey. Most of its revenue comes from tolls on the bridges and tunnels.

Mr. Harvey offered little hope that the County Port Authority in Pittsburgh can run mass transit without public subsidy. "No matter how good the service, no matter how good the equipment, you can't make money in mass transit," he said.

His main job in Pittsburgh is to drum up shipping business for New York. His competitors are Baltimore and Philadelphia.

Mr. Harvey does not worry much about the St. Lawrence seaway. "The seaway is only 27 feet deep," he said. "Large tankers need 35 to 40 feet. If the seaway goes to 35 feet then we'll worry." So far the seaway has taken about 4 per cent of the tonnage from the ocean ports, he said.

Although Mr. Harvey has been in Pittsburgh since last fall, January 13th marked the formal opening of his trade development office. A veteran of three decades in the shipping industry, he has covered the Pittsburgh district for six years.

Setting up a full-time office in Pittsburgh was only natural, he explained, because in both volume and value of cargo "Pittsburgh is the most important import-export center in the nation."

Washington

Navigation Hopes Raised

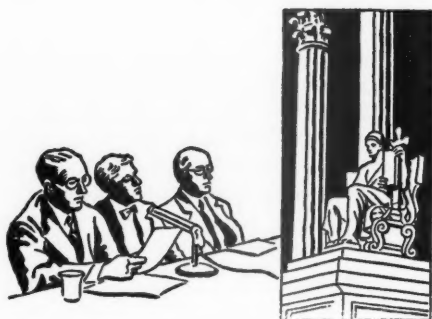
EXTENSION of navigation in Washington state on the upper Columbia river to the Rock Island dam and construction of a dam at Asotin on the Snake river, which would extend navigation to Line Point, Idaho, were thought possible following a conference with the Chief of Army Engineers. This was the report given recently by Herbert G. West, executive vice president of Inland Empire Waterways Association.

He said he was certain that the proposals he made would be favorably endorsed and forecast a new era in transportation and industrial development for central Washington if it gets the needed water transportation.

West also stated that a study made by a trio of experts showed conclusively that extension of navigation on the Columbia river is feasible and points to the need for extension to Rock Island dam and later to Chief Joseph dam.

The extension of navigation to Rock Island dam was cut out of the major water plan, or "308" review report, of the Corps of Army Engineers after the railroads declared they could haul freight in that area as economically as could tugs and barges.

The study West presented, however, showed that construction of locks in dams and dredging of a 14-foot channel at a cost of \$64,559,000 would return an annual benefit of \$4,420,000 to the public.



Progress of Regulation

Trends and Topics

Allowance for Franchise Value or Cost

IT is a well-established principle that only amounts actually expended for a franchise may properly be capitalized. In a few cases the cost of obtaining a franchise has been charged off over a period of years as an expense. When this is done, of course, the expense cannot be allowed again as part of the rate base.

A question was raised in a case which came before the U. S. Supreme Court, involving rates of a toll bridge company, as to "the special value of location." Engineers made an estimate of what they thought one would be willing to pay for the present site in preference to other sites in the vicinity. The court pointed out that the right to operate a toll bridge was fundamentally the gift of the commonwealth contained in the bridge company's franchise, and "to attach a value to it would be to capitalize the franchise" contrary to the provisions of the statute and frequent decisions of courts. The company was not entitled to an increase over the market value of land, as located and used, by virtue of the public use (2 PUR NS 225).

Franchise Bought from Predecessor

Attempts to have franchise value included in the rate base have been unsuccessful. Sometimes the "original cost" is included, but nothing more. In a decision by the Wyoming commission on rates of Northern Utilities Company (31 PUR3d 24) the company included an item labeled "franchise" to which it had assigned a value of \$255,000. Those protesting against the rates contended that the company should not be permitted to earn a return on this value, and the commission agreed.

The city of Casper had gratuitously granted a franchise to a predecessor of the company to conduct a natural gas business within the municipality. The franchise had been transferred in exchange for shares of stock having a par value of \$250,000, and the company had expended \$5,000 for legal services rendered in connection with renewal of the franchise.

The commission referred to its decision in the Plains Pipe Line Company

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case (96 PUR NS 587), where it held that a franchise should not be capitalized in any amount against customers; that only the amount expended in obtaining the franchise may be recouped through amortization charged to operating expense; that any additional amount paid therefor by a purchaser or any arbitrary value assigned thereto must be amortized out of surplus; that franchise costs or values placed thereon should not be included in the rate base; and that patrons should not be required to pay a return thereon. The commission concluded that the \$255,000 assigned to the franchise should be excluded from the cost of the distribution properties for the purpose of fixing rates.

A New Jersey statute provides that no public utility shall capitalize any franchise, to be a corporation, or capitalize any other franchise in excess of the amount, exclusive of any tax or annual charge, actually paid to the state or any political subdivision thereof as the consideration of the franchise. The New Jersey supreme court approved the principle that where a rate is not fixed and may be changed, there is no stable basis upon which to calculate the value of a franchise, since that value is dependent upon the rate.

The court said it makes no difference whether the franchise is obtained by the utility directly from the state (or a political subdivision thereof) or is purchased from another utility. The rate charged the public for the same service cannot be "compounded merely by the sale of a franchise as part of a business by one utility to another" even where the transaction is at arm's length (86 PUR NS 161).

Cost of Franchise Actually in Use

The District of Columbia commission, valuing transit company property for rate-making purposes, said that franchises are usually classified as property and that continuing rights of way in and over public streets granted for a valuable consideration are of the nature of property. A grant on a certain street is limited to that street and to the purpose specified. It is subject to expiration by time limitation, nonuse, or abandonment.

But even if a particular grant or franchise not used as of valuation date could be deemed to continue in ownership, subject to an indefinite future use, it could not be included in value, under the statute providing for valuation of property actually used and useful, when it is not used and not useful in the public service at the time of valuation.

The commission also said that where franchise or right-of-way rights are included in value by the commission they are included at their cost to the acquiring company at the time of their acquisition provided such cost is ascertainable from the record (25 PUR NS 177).

Franchise Costs Charged to Expense

A Pennsylvania court, reversing a commission rate order, said that the commission had included in original cost an item for paving which represented franchise payments or paving costs several years before. The court said these payments represented no property owned by the company and used and useful in the public service. They were in the nature of franchise payments and were

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deducted as an expense in the years in which the paving was done or the payments made. Charges since that time, which were in lieu of the paving obligations under the ordinances, were charged off each year to expense. The court said that the item included in the book cost did not represent property used and useful in the public service and entitled to be taken into consideration in determining a rate base. Amounts charged to operating expense "cannot be capitalized and included in the rate base" (99 PUR NS 37).

The Colorado commission, in fixing a rate base, noted that a water company was writing off the cost of obtaining a franchise on a 15-year basis, and it said that the company had charged the amount to "Reserve for Depreciation" in error. The commission suggested that this amount should appear on the income and expense statement each year under the heading "Other Expenses" (79 PUR NS 427).

The Montana commission expressed its view on franchise cost in this way: Organization and franchise expense should not be charged to operating expenses, since, if allowed at all, it should be charged to the capital account. There is no justification for including in the rate base elements of value that do not represent costs actually incurred or necessarily incurred. Inasmuch as a franchise must be deemed to have been granted upon the implied covenant, or subject to the implied condition, that rates shall be just and reasonable and public regulation of the charges is merely the enforcement of the utility's duty, an alleged "franchise value" must be excluded from the rate base (26 PUR NS 465).

Review of Current Cases

Capital Costs, Financial Transactions, Return Allowance, and Average Month-end Balances Considered in Rate Case

THE Georgia commission authorized Mid-Georgia Natural Gas Company to increase rates by about \$81,000. The new rates were calculated to yield a return of 6.9 per cent. In doing so, the commission accepted a rate base computed on the basis of the average of the 13 month-end balances encompassed by the test period. No allowance for cash working capital was deemed necessary in view of the current average balances in accrued taxes.

The commission observed that serious objection had been taken by the staff to the result of financial transactions between the company and its principal stockholder. The staff had contended that such trans-

actions resulted in a net impairment of capital and that appropriate adjustment should be made therefor. Subsequently, however, the company informed the commission that this condition had been alleviated and that the necessary steps had been taken to prevent its recurrence. As a result, the commission made no adjustment in the instant proceeding. It did say, however, that continuing inquiry would be made into the financial reports of the company to assure the commission that such conditions would not recur.

Rate of Return

The company had claimed that a fair

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rate of return on its investment devoted to the public use was not less than 8 per cent.

This determination was based on the cost of capital of the company as of a specified date with an allowance of 12 per cent for earnings on its equity investment. In its determination of the equity investment, however, the company included 5 per cent subordinate debentures owned and held by its principal stockholder as equity investment.

A review of the commission's files and records indicated that these debentures had been initially issued in payment of construction notes incurred in the construction of the system. They were payable to a construction company wholly owned by the principal stockholder. At the time the company was initially capitalized this stockholder determined the capitalization desired.

The commission further observed that in a previous proceeding in which the company had applied, among other things, for authority to convert the debentures into preferred stock, great stress had been placed on the fact that these securities were debt securities and not equity. Furthermore, the requirement of the first mortgagee with respect to the debentures related solely to a minimum requirement

of subordinate investment whether it be in the form of equity, preferred stocks, or debentures. The commission said that such requirements were not uncommon in other similar instances wherein low equity ratios were in existence.

Evidence indicated that the debentures were, in fact, fixed income negotiable securities commonly issued in gas distribution systems. The fact that they were presently held by the principal stockholder in no way altered the true nature of the security. To hold otherwise, said the commission, would provide the opportunity to transfer the securities to third parties interested only in the fixed income nature of the securities and produce earnings on the true equity in the business of substantially more than that claimed by the company.

It was also developed that certain of the company's common stock had been issued for notes receivable bearing a nominal interest rate. After consideration of these matters the commission concluded that the return of 6.9 per cent was fair and equitable to the company and would provide sufficient earnings to establish a reasonable dividend with the use of what was generally considered a normal pay-out ratio for utilities. *Re Mid-Georgia Nat. Gas Co. File No. 19556, Docket No. 1477-U, December 17, 1959.*



"Modernization" of Long-distance Tariffs Disapproved But Reclassification of Exchanges Authorized

THE Tennessee commission declined to authorize Southern Bell Telephone and Telegraph Company to "modernize" intrastate long-distance tariffs. The commission dismissed the matter on the ground that testimony adduced by the applicant did not indicate that a revision would be in the public interest at this time.

A request to reclassify exchanges was met with approval. Interveners urged,

however, that exchanges should be grouped according to main stations and PBX trunks instead of by total number of stations, including residence extensions, as they are presently grouped. On this point, the commission agreed with the interveners. Extensions do not enlarge the number of subscribers that can be reached on a local calling basis and, therefore, do not affect the value of service

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rendered for each exchange group, it was pointed out.

The commission noted that discrimination had occurred in the past by reason of local exchanges, due to growth or retrogression, having moved into a different rate group without a corresponding change in local exchange service rates. To eliminate such discrimination in the future, a procedure was ordered for the filing of revised exchange tariffs when-

ever an exchange moves into a different rate group and remains there for six months. The commission was also in accord with a proposal to extend the base rate area in a number of exchanges so as to eliminate or reduce mileage charges. The commission indicated that it generally favors the elimination of mileage charges whenever justified. *Re Southern Bell Teleph. & Teleg. Co. Docket No. U-4230, December 3, 1959.*



Southern Bell Rate Case Finally Resolved, Alabama Commission Hopes

THE Alabama commission is hopeful that the multiligated Southern Bell Telephone and Telegraph rate case has finally been resolved. Spurred by court directives, the commission gave the company every benefit of every doubt with regard to valuation, return, and expense issues. But the commission made it clear that its benevolence was not to be construed as a self-imposed mandate to treat the issues in a similar manner in subsequent cases.

Background of Case

Southern Bell filed its rate increase application on January 24, 1954. The application was denied and the company appealed to the circuit court, which permitted the new rates to be put into effect under a supersedeas bond. Extensive litigation followed, culminating in a decision by the supreme court (26 PUR3d 400) requiring the commission to use a "reasonable value" rate base and to consider developments since the 1953 initial test period.

Test Periods

The company had used the 12-month period ending September 30, 1953, in the original presentation of the case. Following remand, the company introduced evi-

dence for the third quarter of 1954 annualized, and averages for the 12-month periods ending September 30, 1955, September 30, 1956, September 30, 1957, and September 30, 1958. The commission accepted and used the company's figures although it noted that the six-month period ending June 30, 1959, annualized would have been more favorable to the subscribers if complete figures for that date had been made available by the company.

Rate Base

In its original order, the commission had felt that a net investment rate base was preferable. It gave the company a return on every cent it had invested in Alabama used and useful in providing service. It was a figure that could be readily ascertained and one which was not subject to the influenced opinions of witnesses for either the company or the subscribers. It would give definiteness to one of the principal factors involved in rate controversies instead of the shifting and treacherous testimony of a speculative and conjectural nature, and any other rate base would be subject to as many different conclusions as there were appraisers or company employees to testify.

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However, in this order and proceeding, the commission accepted all the company's figures on reproduction cost new and the depreciation to be applied thereto. As directed by the supreme court in its interpretation of "reasonable value," the commission considered, on a substantially equal basis, original cost depreciated, reproduction cost new depreciated, and invested capital. This provided a rate base approximately 5 per cent above original cost depreciated.

Working Capital Offset

Materials and supplies and cash working capital were disallowed. The accrued unremitted taxes far exceeded materials and supplies and cash requirements during each of the periods, and the accruals did not include federal excise taxes collected from subscribers but not remitted to the government and substantial sums from advance payment of subscribers' telephone rates.

In addition, there were several other factors which offset the company's claim for a working capital allowance. The greater portion of materials and supplies represented purchases from Western Electric Company. Under the terms of the contract with that company, there was a lag in payment for a substantial period. Charges for exchange service were billed in advance and toll service in arrears. However, exchange revenue was considerably greater than toll revenue. This was particularly true as to intrastate revenue. The period, or lag, between the time goods or service were received and the time they were paid for was another factor in favor of the exclusion.

Plant under Construction

In the original order, telephone plant under construction was excluded from the rate base. In this proceeding, the

commission changed its former position and accepted the company's suggestion to include plant under construction and reduce net operating income requirements by interest charged during construction. The commission made it clear that it did not intend to bind itself to such treatment in future telephone or other utility cases. It was influenced to change its position in this order by a desire to extend to the company every possible consideration consistent with a proper balancing of company and subscriber interests.

Rate of Return

In a 1949 case involving the same company, the Alabama supreme court had approved a 6 $\frac{1}{2}$ per cent rate of return when applied to an average net investment rate base. In the instant case, the supreme court had made it clear that the previous return allowance did not require adherence to the same percentage in future cases. An appropriate rate of return necessarily will vary, stated the court, depending upon the particular conditions and factors in each case. The commission pointed out that it has the responsibility for fixing rates and charges which are reasonable and just so long as it pursues its statutory authority within constitutional limits.

The commission then went on to say that the determination of a return to be applied to the rate base involved four intermediate propositions—based upon three factors and one computation. First, the cost of debt capital had to be ascertained; second, the cost of equity capital had to be determined; third, the proper ratio in the capital structure of debt capital to equity capital, referred to as debt ratio, had to be found; and fourth, the computation from these three propositions of a final determination of the com-

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posite cost of all capital utilized in the enterprise, to be applied to the rate base, had to be made.

Return Allowances

The commission first determined the proper return allowances for the interim period between the original petition and the final rate determination. It allowed 5.33 per cent to 5.77 per cent based solely on the bare-bones cost of capital, using a 35 per cent debt ratio. The actual existing debt ratio was 28.29 per cent. Average interest charges for composite debt ranged from 2.98 per cent for the third quarter of 1954 annualized to 3.49 per cent as of September 30, 1958. Cost of equity ranged from 6.47 per cent to 7.14 per cent based on earnings-price ratios of 6.16 per cent to 6.80 per cent taken from Moody's 24 electric utilities, plus an adjustment of an additional 5 per cent to compensate for cost of financing and theoretical market pressure.

For the future, a return of 5.57 per cent on the reasonable value rate base was considered reasonable, using 3.49 per cent cost of debt adjusted upwards to 3.91 per cent to compensate for a recent bond issue, and a 6.47 per cent cost of common equity.

Operating Expenses

In its prior order, the commission had adjusted net operating income for the test period to reflect the net effect of increasing directory advertising rates, a decrease in federal income tax as a result of apportioning tax liabilities, savings resulting from conversion of the manual control offices to dial, and adjustment for Western Electric Company excise profit taxes. All these adjustments were eliminated in the instant case, and all the expenses claimed by the company allowed.

The commission, however, commented

critically on one other expense that was allowed—the sum of \$657,228, representing the intrastate portion of expenses admittedly incurred by the company in connection with its preparation and prosecution of the case during the test periods involved following the original hearing. The commission pointed out that it was at a distinct disadvantage, with its limited budget, in investigating the figures, appraisals, procedures, claims, and conclusions presented by the company.

The exorbitant expenses of the company in connection with the case, said the commission, have been included in and allowed as a part of the operating expenses and are ultimately borne by the Alabama subscribers. At the same time, the subscribers have to rely upon the very limited budget of the commission and the unorganized resources of the interveners. This system and practice were not right.

Nor did the commission look with favor upon the intercorporate relations of Southern Bell with its parent and with its supply affiliate. It made particular mention of Western Electric Company earnings, the unavailability of division of revenue data, and Southern Bell's denial of access to competitive money markets. It put the company on notice that it did not intend to be prejudiced in its future actions by its holdings in the instant case.

At the conclusion of the case, the commission re-emphasized its desire to bring the rate proceeding to a conclusion. In deference to that desire, it had extended to the company every possible consideration.

The return allowed the company substantially exceeded that allowed in many of the other southern states. The benefits accorded the company, pointed out the commission, should permit it to render a highly efficient service to Alabama subscribers and to expand facilities rapidly

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to take care of any requests for new service or upgrading. It was the commission's intention to see that such type

service was afforded. *Re Southern Bell Teleph. & Teleg. Co. Docket No. 13572, December 8, 1959.*



Flat Rate Local Tax Surcharged on Local Bills

THE Nevada commission authorized Bell Telephone Company of Nevada to add a surcharge of 1.4 per cent to monthly exchange charges in the city of Winnemucca to cover a recently increased flat rate local tax of \$1,500 per year imposed upon the company by this municipality.

City officials urged that this tax be treated as an item of operating expenses such as rent, wages, heat, lights, etc., to be included in the company's overall operations in the state. It was contended that if the tax were recovered through a local surcharge, the company would not be paying for city services, resulting in discrimination against other business taxpayers.

Finally, the city argued that as the company's revenues increase, a surcharge may exceed the tax, permitting the company to make a profit from the surcharge.

Bell of Nevada took the position that if the tax were spread over all customers in the state, the burden of the tax would be borne in large part by people outside the taxing jurisdiction, thereby eliminating the normal checks on an abuse of the taxing power. Fairness, it was said, demands that the tax be recovered from local customers. The company proposed to review the surcharge annually, reducing it if necessary, and crediting or refunding any amount collected in excess of the tax.

The commission found that the collection of the local tax from local subscribers would be just and reasonable since the benefit of the tax revenue goes to them. The same principle applies whether the tax is levied at a flat rate or by a percentage of revenue. *Re Bell Teleph. Co. of Nevada, I&S Docket No. 214, October 27, 1959.*



Commission Has Power to Control Utility Expansion

THE Colorado commission held that statutes authorize it to control utility expansion where public convenience and necessity may be in danger. The issue had arisen in a case involving a telephone company's application for a certificate to serve a certain county.

A missile-launching site was located within the county.

Service to the site could involve the expenditure of money that could very well jeopardize the financial integrity of the county, pointed out the commission, and

jeopardize service to the isolated regular customers of the company. For this reason, the company was granted authority to serve the entire territory including the missile-launching site, but was restricted from extending service to the missile-launching site until it proved to the commission that such service was economically feasible and would not jeopardize service to members of the general public. *Re Grover Teleph. Exchange, Application Nos. 14435, 17232, Decision No. 53429, November 30, 1959.*

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Accrued Depreciation Based upon Reserve Requirement Study

THE Pennsylvania commission approved a rate increase sought by the Peoples Natural Gas Company. The new rates were calculated to increase annual operating revenues by \$2,889,640. The increase, which was opposed by the city of Pittsburgh, would provide the company with a yearly net income of \$7,352,000. This would amount to a return of 6.13 per cent. The commission considered this return reasonable and not excessive.

Accrued Depreciation

The city of Pittsburgh contended that the book reserve and trended book reserve for depreciation, depletion, and amortization should be used in measure of value calculations. The commission rejected this argument. It pointed out that it has consistently held that only by coincidence would a utility's book reserve for depreciation measure the accrued depreciation at a given date. It said that the results of a reserve requirement study, when properly determined, more nearly reflect the accrued depreciation of a utility's property at a given date, and that its use has been a pronounced forward step in rate regulation. The commission also held that the determination of the annual accrual for depreciation and depletion must be on a basis consistent with the determination of the accrued amounts.

Trended Original Cost

The company submitted estimates of trended original cost of property at the average prices for 1958 and at the three-year and five-year average price levels ended December 31, 1958. The company's methods of trending were similar to those which had been accepted by the commission in prior rate proceedings, and they were accepted in this case.

In its brief, the city of Pittsburgh

claimed that the company's trended costs were unrealistic measures of value and should be rejected. It advocated the use of substitute plant based upon modern design and efficiency. This contention was rejected.

The commission said that it has long since been settled law that in making an estimate of reproduction cost, such property and only such property as is presently used and useful in the public service is the property for which the cost of reproduction is to be estimated. No estimate of reproduction cost of a substitute plant, considered to be the equivalent of existing plant, could be accepted. The estimate must be upon the selfsame property in use today, said the commission. The same principle holds for costing by the trended original cost method.

New Installations

The city of Pittsburgh stated also that the commission, in considering fair value, should recognize that some of the claimed test-year plant in service was placed in service late in the year, and, hence, its ultimate efficiency was not realized. The commission said, however, that if the company or any other public utility were to meet the service demands of its customers it should anticipate service requirements for the foreseeable future. It could not wait until customer requirements might occur. If it were to do so, the commission would consider the company derelict in its duty to the public. The commission rejected the city's contentions after finding that the company had proceeded reasonably in this respect.

Consolidated Tax Return

Income from the company's operations is combined with five other operating af-

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filiates, and a consolidated tax return is filed by the parent, Consolidated Natural Gas Company. Funds received from the long-term debt issues of the parent are advanced to the operating subsidiaries which, in turn, pay interest to the parent for these funds.

No tax savings are allocable to the subsidiary by reason of the filing of a consolidated federal income tax return by the parent and its operating subsidiaries. This is primarily due to (1) all of the interest expense of the operating subsidiaries re-

sults from advances made by the parent, (2) all of the operating subsidiaries have taxable income, and (3) the total interest expense of the subsidiaries, usable as deductions from income on the basis of filing separate returns, exceeds the interest expense in the consolidated income tax return of the group.

For these reasons, the Pennsylvania commission determined the company's income tax liability on a separate return basis. *Re Peoples Natural Gas Co., C 17090, C 17081, November 4, 1959.*



Southern Louisiana Gas Producer Sales Certificated Without Price Condition

THE Federal Power Commission declined to impose a price condition upon proposed initial prices of 21.5 and 22 cents per Mcf plus taxes up to 2.05 cents for natural gas produced in southern and offshore Louisiana. The gas will be purchased by Transcontinental Gas Pipe Line Corporation and will be used to increase service to existing customers. Transcontinental was authorized to construct and operate necessary facilities for such increased service. The question of constructing facilities for a previously proposed X-20 transportation service to Consolidated Edison was severed for later action upon final disposition of the X-20 service matter now in litigation.

The New York commission, United Gas Improvement Company, Public Service Electric & Gas Company, and Long Island Lighting Company took exception to the examiner's decision certificating the producer sales without a price condition.

They alleged that these prices had not been shown to be required by the public convenience and necessity.

The commission found that the evidence of record supported the examiner's

determination that the proposed prices would not establish any new price plateau or trigger increases in other contracts of the purchasing pipeline. Nor did they appear to be out of line with other certificated prices in the production area. Considering price evidence along with evidence of the urgent need for these additional volumes of gas, the commission concluded that the proposed sales were required by the public convenience and necessity without price conditions. It observed, moreover, that its action was in accord with the Catco decision (29 PUR-3d 70).

Dissent Hits Proposed Price Level

Commissioner Connole disagreed with the conclusion that these sales were required at the proposed price level. He found no support in the evidence for the proposed prices and thought the mandate of the Catco decision requiring "a most careful scrutiny and responsible reaction to initial price proposals" had not been met. It is true no new price plateau will be set, he pointed out, only if the mark set by the Catco contracts is accepted as the altitude for the plateau.

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He thought the proposition that no increases in other contracts would be triggered by these initial prices suffered the same infirmity. As to the finding that these prices were not out of line with authorized prices in the production area, Com-

missioner Connole declared that the commission may not cite its own error to justify compounding that error in another proceeding. *Re Transcontinental Gas Pipe Line Corp. et al. Docket Nos. G-16603 et al. November 17, 1959.*



Gas Price Condition at Prevailing Level of Producing Area Reaffirmed

THE Federal Power Commission refused to modify an order granting natural gas producer certificates subject to a price condition which would reduce a proposed price of 17 cents per Mcf to 15 cents. The case involved Phillips Petroleum Company and Union Producing Company, which had contracted to sell what would eventually amount to 24,000 Mcf per day from the North Henderson field area of Rusk county, Texas, to United Gas Pipe Line Company.

Finding that the producers made no showing on the record to support the proposed 17 cents, the commission had conditioned the initial price to reflect a slightly higher figure than the prevailing price in the production area, giving consideration to the fact that the field, being recently developed, was somewhat more expensive than other fields in the area.

Price Condition Criticized

Arguing against the price condition, the producers urged that the price condition was based principally on staff evidence of prices in Texas Railroad District No. 6, which, it was asserted, is small and peculiarly shaped and is not a valid basis for the sales contemplated in this proceeding. It was also pointed out that prices of 18 and 20 cents have been certificated within little more than 120 miles of the Henderson field.

The producers further contended that the commission has utilized larger areas

in other cases for price data in considering the justification for proposed initial producer prices. Finally, it was argued that the price condition would adversely affect the incentive to explore for gas and that 17 cents was not out of line under the Catco decision (29 PUR3d 70) since United is already paying higher prices for recent sales under comparable conditions.

Catco Protects Consumer

The commission held that these arguments would not justify its turning away from the essential purpose, laid down in the Catco decision, of protecting the consumer against unjustified price exactions resulting from high initial producer prices not supported on the record. In order to realize this essential objective, said the commission, high initial prices must be reduced by attaching conditions wherever a reasonable basis required by public convenience and necessity is found to exist.

The commission rejected the criticism that the staff's evidence of prices was inadequate for appraising proposed initial prices.

The producers did not themselves undertake to make a record justifying their prices, and the staff could not be expected to prove the applicants' case. The commission pointed out that the higher prices it had certificated were for fields in areas such as north Louisiana,

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south Louisiana, and the Gulf coast region, in which price differentials have historically prevailed. No evidence was presented to show that comparable prices were justified for North Henderson sales. As stated in the original opinion, in the absence of data supporting the proposed initial price, the commission must rely on such data as the record affords to support such reasonable conditions as are justified on the facts.

Nor was there any evidence on the record to support the alleged adverse effect of the price condition on producer exploratory activities. The commission concluded that, consistent with past experience, a 17-cent price would result in higher prices charged for resale gas. It was precisely this that the Catco case was

intended to prevent, the commission declared.

Clarification of Order

By way of clarification of the original order, the commission indicated that the 15-cent price condition was exclusive of tax reimbursement. It was also pointed out that the order did not require Phillips to eliminate the periodic escalation and redetermination provisions of its sales contract. Such provisions concern matters not before the commission in this proceeding. However, any future changes from the initial rate must be handled in conformity with § 4(e) of the Natural Gas Act. *Re Phillips Petroleum Co. et al. Docket Nos. G-15514, G-15716, G-16923, December 9, 1959.*



Rate Increase Assures Retirement of Bonds

THE Indiana commission approved higher rates for Indiana Utilities Corporation for gas service to several communities. For two out of the last four years, the company has sustained a substantial loss. It appeared that the utility's operating costs were reasonable, though its cost of purchased gas would be imminently increased. The company has never paid a dividend and will have first mortgage bonds becoming due and payable in 1966. The commission determined that the public interest required a rate increase in order to afford the company a fair return on its investment and to enable it to accumulate sufficient funds to retire its bonds.

After the purchase of a supply pipeline, which the commission approved, Indiana Utilities' common equity ratio will be less than 40 per cent. The commission directed the company to sell additional common stock so as to increase this ratio to 40 per cent.

A distribution and transmission loss of gas in excess of 40 per cent was considered excessive. This condition was required to be improved by such repairs and replacements as might be necessary to reduce the loss to 25 per cent. The commission regarded 25 per cent as a reasonable loss for this company's system. *Re Indiana Utilities Corp. No. 28123, October 30, 1959.*



State Seeking Intervention in FPC Gas Case Must Show Interest

SECTION 15(a) of the Natural Gas Act does not entitle a state commission to intervene in a gas proceeding as of right

simply by filing a bare notice of intervention, the Federal Power Commission held in refusing the New York commis-

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sion a rehearing of an order which denied it intervention in a gas proceeding. Nor is such right conferred by the federal commission's rules.

The New York commission had made no showing of interest in the proceeding. Clearly, where the notice of intervention is devoid of any allegations of direct and immediate interest, there is no basis upon which intervention must be granted as of right, said the federal commission. Both the statute and the rules require an intervening state commission to be interested.

Lacking entitlement to intervene as of right, the New York commission's re-

quest to intervene was addressed to the federal body's sound discretion in the public interest.

A contention by the state commission that it was entitled to intervene because the proceeding involved initial price levels for gas being sold to Trunkline Gas Company was rejected. Even assuming this assertion of interest was timely, the Federal Power Commission regarded the state authority's concern in such prices as remote, conjectural, and factually insufficient to demonstrate aggrievement and entitlement to intervene as of right. *Re Austral Oil Co., Inc. Docket Nos. G-15819 et al. November 19, 1959.*



Commission Asserts Jurisdiction over Municipality Operating Authority-owned System as Lessee

NOTWITHSTANDING limitations upon commission jurisdiction over municipal authorities, the Pennsylvania commission holds that it has jurisdiction over service rendered by a municipality which operates an authority-owned system as lessee. This decision was made in a case in which a complaint had been made against a "tap-on" fee of \$100 required by Newville Borough Water Department.

The commission noted that under the Public Utility Law it has had jurisdiction over public utility service furnished and rates charged by a municipal corporation beyond its corporate limits, including in the definition of the term "municipal corporation" an authority. Subsequent legislation, however, has effected a number of changes in regulatory jurisdiction over authorities. One statute provides that an authority shall have power to fix reasonable and uniform rates, to be determined exclusively by it, and that any person questioning such rates may bring suit in court. The court of common pleas has exclusive jurisdiction to determine

the reasonableness and uniformity of such rates. A court held in 1952 that this statute had not repealed the applicable section of the Public Utility Law and that the commission retained jurisdiction of service beyond corporate limits by an authority.

The legislature, in 1955, further amended the Municipality Authorities Act of 1945 and provided that the court of common pleas should have exclusive jurisdiction to determine questions involving not only rates but service. The act provided for appeals to the superior court after the court of common pleas had rendered its decision. The commission, therefore, concluded that it was without jurisdiction as to service rendered by an authority. If the authority were operating its own water system, the commission would have no jurisdiction over the service furnished or rendered beyond its corporate limits.

Lessee Distinguished from Agent

Granting that an authority is not

PUBLIC UTILITIES FORTNIGHTLY

subject to commission jurisdiction, a distinction, said the commission, necessarily must be drawn between an arrangement whereby a municipality operates an authority-owned system as agent for the authority and an arrangement whereby a municipality operates the system itself as lessee. In the case of an agency relationship, the exemption from commission jurisdiction applicable to an authority should enure to the benefit of its operating agent. But where a municipality is a lessee in complete control of an authority-owned system, according to the commission, the municipality is subject to its jurisdiction by reason of its status as an operating lessee. The commission said:

Certainly it cannot be disputed that if the borough of Newville were operating its own water system, we would

have jurisdiction over the service furnished or rendered beyond its corporate limits, and jurisdiction in this instance of the complaint. Our jurisdiction is equally clear where the borough of Newville is vested with complete control of the system under a lease.

Tapping Fee Disapproved

The requirement whereby an applicant for service was obligated to pay a tapping fee of \$100 before service would be made available to him, said the commission, was not supported, and the requirement was said to be contrary to the long-established principle that a tapping fee is improper. The municipality was required to eliminate this practice for service rendered outside borough limits. *Raulston v. Newville Borough Water Dept. Complaint Docket No. 16421.*



Additional Fees Allowed in Holding Company Reorganization

THE Securities and Exchange Commission ordered The United Corporation, on rehearing, to pay additional fees and expenses in addition to those specified in a previous order (30 PUR3d 348), for services rendered in a holding company reorganization proceeding. The earlier order had denied the fee applications of two law firms without prejudice to the renewal of applications at a later date. Fees had been disallowed in the earlier proceeding on the ground that the services covered by the applications included activities in support of the applicants' own fee applications in prior fee proceedings. Accordingly, the commission had required the law firms to state what part of their total services was devoted to services on behalf of United, which would be compensable and what amount of time was devoted to services in support of the firms' own applications, noncompensable services. Such evidence was submitted on

rehearing and the commission made the additional allowances.

The compensability of the services of company counsel is, in the absence of special circumstances, generally conceded and, said the commission, it is well settled that, as to the value of compensable time, great weight must be given to an agreement between the company and such counsel. The company had found the fees reasonable and had paid them subject to reimbursement should any of the amount be disallowed by the commission. The commission said that it had not objected in the past to similar arrangements between a company which was the subject of proceedings under § 11(e) of the Holding Company Act and persons whom it had engaged to perform necessary services in such proceedings. It found nothing improper in the present arrangements. *Re The United Corp. File No. 54-184, Release No. 14110, December 7, 1959.*

PROGRESS OF REGULATION

Trended Expense Increase Allowed In Water Rate Case

THE Connecticut commission has authorized a rate increase for Crystal Water Company which will afford a rate of return of 6.25 per cent. With this increase the company can meet expenses, including taxes and depreciation, pay its historical 6 per cent dividends on the par value of outstanding common stock, and attract additional capital as needed for improvements and expansion. A proposed rate level was considered excessive since it would produce a return of 9.9 per cent on the rate base determined by the commission.

Contemplated construction, which would not be completed until some time after the end of the 1959 test period, was excluded from the company's rate base. Consequently, neither depreciation expense on this construction nor the anticipated cost of operating a proposed new well was allowed as an operating expense. The cost of servicing debt to be incurred in financing the construction was similarly

rejected as an operating expense. The commission pointed out that such cost must be met out of the earned return.

An anticipated increase in operating expenses for the full year of 1959 was allowed. The increase represents the trended annual increase in operating expenses experienced from 1955 through 1958. It appeared reasonable to the commission.

Fire Protection Service Rates

Instead of the existing flat assessment per fire hydrant, the commission approved new rates for public fire protection based on the inch-foot method, even though the change would result in a threefold increase in public expense for this service. The inch-foot method has previously been accepted as appropriate, the commission indicated, since it recognizes the capacity of the mains as well as the existence of the hydrants. *Re Crystal Water Co. Docket No. 9852, December 21, 1959.*

Other Recent Rulings

Carrier Authority. A federal district court affirmed the Interstate Commerce Commission's view that "processed meat," authorized to be transported by a common carrier, does not include fresh meat. *Chesapeake Motor Lines, Inc. v. United States et al. 176 F Supp 98.*

Charter Service Not Considered. A federal district court agreed with the Interstate Commerce Commission that it was not bound to consider harmful competition to charter and other special bus operations which might result from a grant of common carrier authority, since

chartering privileges are incidental to a grant of regular route authority under the Interstate Commerce Act. *Safeway Trails, Inc. v. Interstate Commerce Commission et al. 176 F Supp 201.*

Transit Authority Not Exclusive. Upholding the commission, the California supreme court held that authorization of privately operated service, which the Los Angeles Metropolitan Transit Authority is presently unable to provide, does not impede the ultimate establishment of an integrated transit system for Los Angeles county, as contemplated by a 1957 statute.

PUBLIC UTILITIES FORTNIGHTLY

Los Angeles Metropolitan Transit Authority v. California Pub. Utilities Commission, 343 P2d 913.

Service Charge. A municipal water plant requiring additional revenues in order to install and service new meters was authorized by the Wisconsin commission to establish a service charge of 25 cents a month in addition to existing rates where the resulting rate of return would amount to only 4 per cent. *Re City of Hurley*, 2-U-5238, October 9, 1959.

Rates without Rate Base. The Wisconsin commission indicated that no finding of a rate base or a rate of return was necessary in authorizing a gas company to reduce rates upon conversion to natural gas, where the company's present earnings were low, substantial investment was required, and future earnings for the following year would be less than 2.5 per cent of an estimated rate base. *Re Northern States Power Co.* 2-U-5257, October 9, 1959.

Automatic Rate Changes. Provisions for future automatic rate adjustments or price redeterminations contained in listed rate schedules, when invoked to change effective rates, constitute a change in such rates within the meaning of § 4(d) of the Natural Gas Act, the Federal Power Commission pointed out in accepting natural gas producer rates for filing. *Re Smith Development Co., Agent, et al.* Docket Nos. G-17835 et al. November 16, 1959.

Power Project Permit Rescinded. The Federal Power Commission, noting that Congress had already authorized an agency of the United States to undertake a power project on a particular river site,

rescinded a preliminary permit granted to a private power company, since the commission would have no authority to issue a permit or license in such circumstances. *Re Georgia Power Co. Project No. 2263*, November 17, 1959.

Measure of Service Requirement. The Federal Power Commission agreed with its presiding examiner that the system requirements of a natural gas pipeline company were properly measured by the firm contract demand in testing reserves against system requirements. *Re Texas Illinois Nat. Gas Pipeline Co. et al.* Docket Nos. G-14829 et al. December 1, 1959.

Boiler Fuel Gas Sales. The Federal Power Commission authorized Northern Natural Gas Company to furnish interruptible boiler fuel gas to a co-operative power plant, with resulting economies to both Northern and the plant, taking the view that the recent Consolidated Edison decision (third circuit court of appeals, November 3, 1959), ruling on the question of end use, does not foreclose the commission's considering the present case on the basis of standards previously applied in other cases. *Re Northern Nat. Gas Co.* Docket No. G-18633, December 1, 1959.

Uniform Telephone Rates. The Wisconsin commission approved a proposal by a small telephone company to establish a uniform rate system where the company's exchanges had the same standard of facilities and where, moreover, the company provided extended area service between its exchanges, indicating a definite community of interest between them. *Re Badger State Teleph. & Teleg. Co.* 2-U-5268, December 17, 1959.



Industrial Progress

\$400,000 Program Planned Public Service Elec. & Gas

KEEPING pace with continually increasing demands for electric and gas service, Public Service Electric and Gas Company, according to an announcement by President Donald C. Glavin, contemplates expenditures of \$140,000,000 to \$150,000,000 in new construction during 1960. This will mark the fifth consecutive year the company's construction expenditures have exceeded \$100,000,000 and will bring to more than a billion dollars the amount expended since 1951 for additions and improvements to plant and equipment.

In spite of some delays resulting from strikes, work is progressing on major additions to the company's generating facilities. The Bergen station in Ridgewood, New Jersey, estimated to cost nearly \$110,000,000, already has one 290,000-kilowatt turbine generator in operation and the second unit of similar capacity will be placed on the line early in 1960. The new station, located in Hamilton Township near Trenton, in the heart of the Delaware Valley, will cost approximately \$130,000,000. The first of two 620,000 kilowatt turbine generators is expected to be placed in operation in 1960, and the second, of similar capacity, in 1961. At the existing Camden generating station, near Camden, a fifth turbine generator is being installed. This huge 600-kilowatt unit, to cost more than \$66,000,000 and scheduled for completion in 1962, will raise the station's capacity to 817,000 kilowatts, largest in the company's system. Upon completion of these new facilities and after retirement of some older generating units at Marion station, the company's installed capacity will be 4,054,000 kilowatts, an increase of almost 10 per cent over the capacity on January 1, 1959.

Construction and reinforcement of major high-tension transmission lines and switching facilities, at a cost of almost \$40,000,000, is under way or planned.

Among the new switching stations under way or scheduled for the near future are those located in Gloucester and East Rutherford for service in 1960, and Aldene switching station in Clark Township, scheduled for service in 1961. Just placed in operation is the \$6,000,000 Newark switching station with an ultimate capacity of 330,000 kilovolt-amperes located close to the city's central business district.

In addition, the President points out, the company will expand its distribution facilities with the installation of 22,000 new electric meters, 2,000 miles of overhead and underground wires, 5,000 additional distribution transformers, 5,000 new street lights, and 8,500 additional poles during this year.

The company's program of converting customers' appliances from mixed gas operation to the use of straight natural gas in certain areas will be continued in 1960. About 42,000 additional customers will be affected, and by the end of 1960 more than 560,000 customers, or nearly one-half of all customers in the company's territory will be served with straight natural gas.

More than 30,000 gas heating customers were added during 1959, bringing the total number to approximately 275,000, and it is anticipated that by the end of 1960 the company will serve more than 300,000 heating customers. Plans for gas facilities to meet the increased demands of present customers and to provide service to an expected 29,000 additional gas heating customers include the installation of approximately 285 miles of gas mains, 22,000 services, and 27,000 meters during 1960. A new distribution head-

quarters will be constructed at Oradell, in the northern portion of the company's service area, and, in the southern area, the Gas Department will renovate and occupy the recently vacated Electric Department distribution headquarters in Camden.

Forecast Record Output for Electrical Manufacturing Industry in 1960

FACTORY shipments of products within the electrical manufacturing industry reached a value of \$21,500,000,000 in 1959—an increase of 11 per cent over 1958—and predictions are that a new all-time record of more than \$23,000,000,000 will be set in 1960, according to Joseph F. Miller, managing director of the National Electrical Manufacturers Association. The anticipated 1960 mark is 7 per cent over 1959.

The previous high point set for the value of factory shipments was \$21,900,000,000 recorded in 1956.

The report shows that each of the eight major divisions of the industry registered substantial gains in 1959 over 1958, with two of the largest—consumer products and electronics and communications equipment—reporting increases of 11.5 per cent and 11 per cent respectively.

Manufacturers in the Generation, Transmission and Distribution field reported a modest gain of 1.6 per cent in the value of factory shipments in 1959 over 1958 despite the serious effects of imports of foreign-made heavy power-producing equipment on United States equipment. In dollars, United States manufacturers of such equipment reported output in 1959 of \$2,079.4 million over the 1958 mark of \$2,047.0 million.

Although somewhat cautious on 1960 predictions, all branches of the

(Continued on page 20)

INDUSTRIAL PROGRESS—(Continued)

electrical manufacturing industry see continued good business ahead with increases over 1959 ranging from 5 to 10 per cent.

Manufacturers of wire and cable expect the largest increase among the NEMA Divisions, forecasting a 10 per cent gain—to \$1,654 million—in the value of factory shipments in 1960 over 1959.

Increases also are forecast in shipments of consumer products, electrical building equipment, and light-

ing equipment. Manufacturers of consumer products—home appliances, electrical housewares and electric fans—see a 5 per cent increase in shipments in 1960 over 1959 for a dollar value of \$6,301.1 million. Major appliance manufacturers alone forecast an increase by 3 per cent in 1960 over 1959. Electrical building equipment and lighting equipment shipments are expected to increase by 7 per cent in 1960, with building equipment shipments rising to \$797.2 mil-

lion, and lighting equipment shipments going to \$1,538.8 million.

Manufacturers of generation, transmission and distribution equipment likewise are optimistic about 1960 shipments and predict industry sales increasing to \$2,242.3 million, a gain of 8 per cent over 1959 totals.

Industrial equipment and electrical and communications equipment each expected to post 8 per cent gain in factory shipments in 1960 over 1959, while manufacturers of insulating materials forecast a 9 per cent gain. In dollars, this means that anticipated 1960 outputs of these divisions reach the following totals: industrial equipment, \$3,750.8 million; electronics and communications equipment, \$6,332.8 million, and insulating materials, \$441.4 million.

Bright Future for Lighting Industry Predicted by Westinghouse Executive

A BRIGHT future for the lighting industry was predicted recently by a Westinghouse executive.

F. M. Sloan, Westinghouse president and manager of the company's lamp division, said that an upward trend in the lamp industry is apparent. He reported that new sales for the industry were set in 1959 and estimated that final figures for 1960 would show that sales exceeded \$425 million.

"In the half-trillion dollar national economy which we expect our industry to reach this year, the lamp industry is aiming towards a half-billion dollar market."

Speaking to some 200 members of the Westinghouse lamp division management, Mr. Sloan reported: "Our marketing people report that the upward trend in light bulb sales which was apparent during most of 1959, is definitely continuing into 1960. During 1959, Westinghouse lamp sales exceeded 1958 sales in ten out of twelve months. We anticipate that 1960 will continue to set new records."

The 1959 total lamp market exceeded 1958 by approximately 10 per cent, Mr. Sloan reported. A five-year forecast prepared by lamp division economists, indicates that by 1964 the total lamp market will be 50 per cent greater than in 1959 at current prices, he said. He reminded the management group that the lamp market historically has doubled itself every ten years.

(Continued on page 22)

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NEW ISSUE

January 13, 1960

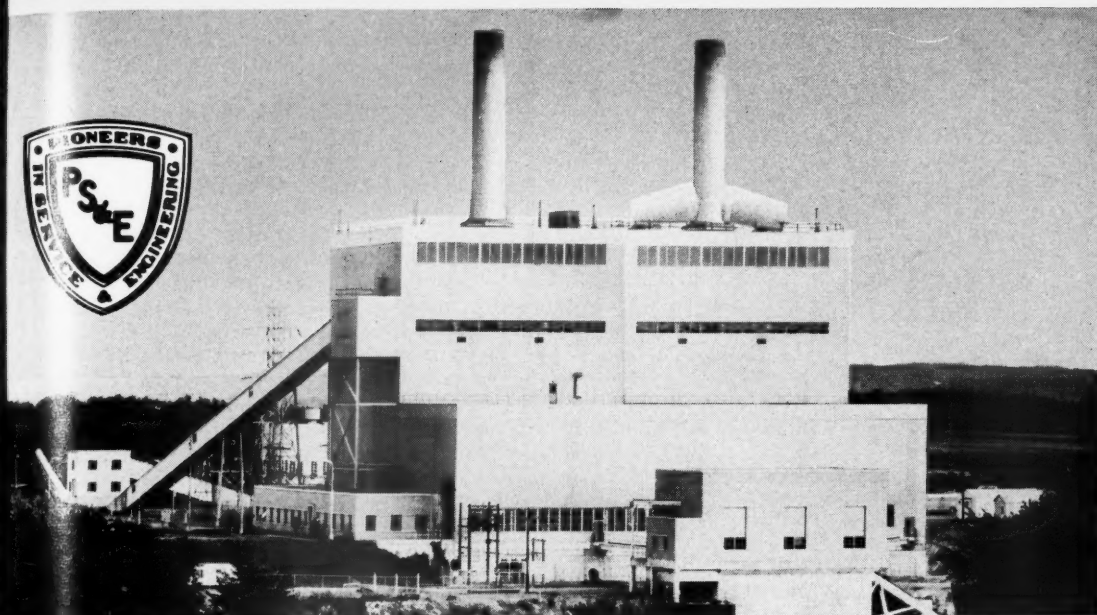
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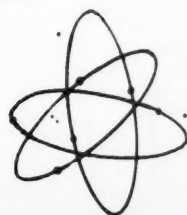
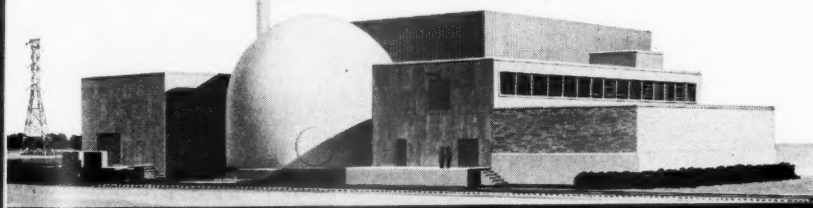
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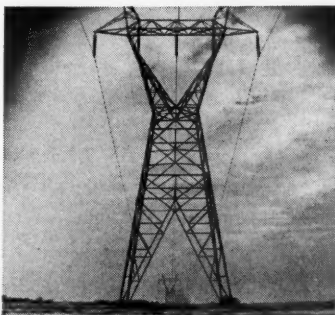
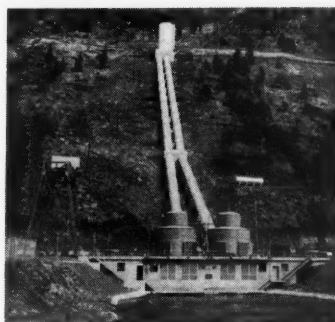
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INDUSTRIAL PROGRESS—(Continued)

Pacific Lighting System Has \$86,500,000 Program

PACIFIC Lighting Corporation's three subsidiaries which provide natural gas service to a Southern California population of 8,000,000, have budgeted \$86,500,000 for additions and improvements to facilities in 1960, it was announced recently.

The plant budget, which does not include more operating expenses, exceeds by \$8,000,000 the gross addition to plant in any one year in Pacific Lighting Corporation's 73-year history.

At the same time, the integrated system's two distribution companies—Southern California and Southern Counties Gas Cos.—disclosed that they expect to add 90,000 new customers in 1960, thereby continuing a growth pattern established at the end of World War II. Since 1945 the two companies have averaged additions of more than 90,000 customers every year, with number of meters having more than doubled from 1,137,000 at year-end 1945 to an anticipated 2,400,000 at year-end 1959. Surveys show an average of 3.5 persons per meter.

More than 40 per cent or \$36,000,000, of the \$86,500,000 budget for 1960 is slated to be spent on two major gas transmission projects which over the next few years are expected to swell deliveries of out-of-state gas to southern California to 2 billion cubic feet of gas daily. Present deliveries of out-of-state gas are 1.143 billion cubic feet daily. The Pacific Lighting System also purchases large amounts of California-produced gas.

One of the new supply projects, with an initial estimated delivery of 300,000,000 cubic feet of gas daily, is the Transwestern Pipeline Co. of Houston, Texas, which is under construction. Pacific Lighting Gas Supply, the third Pacific Lighting Corp. subsidiary—is scheduled to take substantial deliveries from Transwestern at the California border by the fall of 1960. The California portion of the Transwestern project is expected to be \$17,300,000.

Southern California and Southern Counties Gas recently received approval from the California Public Utilities Commission to construct a 115-mile, 36-inch diameter pipeline from Newberry to Placentia, through the Cajon Pass. This proposed pipeline, construction of which is expected to cost \$19,100,000, will (1) tie into the P. L. G. S. line carrying Transwestern gas, and be part of another out-of-state project, when—upon approval of regulatory agencies—it is tied in at the California-Nevada border with a proposed new transmission line of El Paso Natural Gas Co. The proposed line originates at Rock Springs, Wyoming.

Breakdown of the total system's budget is as follows: Southern California Gas Co., \$37,700,000; Southern Counties Gas Co., \$23,400,000; and Pacific Lighting Supply Co., \$25,400,000.

The upward trend in the cost of meeting energy requirements of Southern California homes, commercial establishments and industry is reflected in the system's budget. At the end of 1945, the gas companies' average investment per meter served was \$200. At the end of 1960, the average investment is expected to be \$276, a 76% increase in 15 years.

Hatfield Wire & Cable Enlarging Facilities

of the largest and most modern in the country devoted exclusively to the production of all types of rubber and synthetic rubber insulated and cable for the electrical industry scheduled for completion early 1960, at Linden, New Jersey. The new plant will be built for the Hatfield & Cable Division of Continental Paper & Steel Industries, Inc., 100 Broadway, New York, New York. Grad & Sons of Newark, New Jersey, architects and engineers, designed the new structure.

The new plant will add 240,000 sq. ft. to Hatfield's present facilities at Hillside and Union, New Jersey. Production of rubber wire and cable products will begin early next year, with full production expected later. New product lines will include higher voltage cables for utility and larger multi-conductor cables. Hillside plant then will concentrate exclusively on the manufacture of synthetic insulated types of wire and cable products and will develop new types of insulated lines.

W. Grotta, general manager of Hatfield Wire and Cable and senior vice president of CCS, stated that he expects development of many new products would be accelerated by the new production, laboratory, testing and quality control equipment being installed.

Alabama Power Plans to Spend \$1,000,000 in 3-year Program

ALABAMA Power Company directors have approved a construction program of \$55,800,000 for 1960 as part of an estimated expenditure of \$170,000,000 within the next three years for generating plants, lines and other facilities.

In making the announcement, W. Martin, chairman, stated: "There is every reason to believe the South will continue its growth and that with abundant natural resources and a spirit of welcome to industry Alabama will share proportionately in this growth. We must develop electric power facilities available to advance this growth. Generating facilities must be started and completed in advance of the day when they are needed."

A large portion of the 1960 budget of \$4,000,000 will be used to bring under completion two dams under construction — Weiss Dam on the

Coosa River and Lewis Smith Dam on the Warrior River—and to start construction of the Kelly Creek Dam on the Coosa River. Preliminary engineering work will be continued in relation to power facilities to be installed in the Bankhead Lock and Dam and in Lock 13, both on the Warrior River. Alabama Power Company has a license for the Bankhead project and has applied for a license for the Lock 13 project.

Nearly \$1,000,000 will be expended on improvements in existing steam and hydro plants.

The next largest item in the budget is nearly \$18,000,000 for improvements and enlargements to customers' service facilities, such as distribution substations, lines and related equipment.

Nearly \$10,000,000 will be used for the construction of new, or increasing the capacity of, transmission lines and substations.

IBM Announces 7080, Powerful Business Computer

INTERNATIONAL Business Machines Corporation recently an-

nounced the fully transistorized IBM 7080 data processing system, said to be the most powerful computer yet designed specifically for business.

The large-scale IBM 7080 system can produce management reports and process payrolls, inventory control, billing and similar accounting jobs up to ten times faster and at a substantially lower job cost than that possible on the IBM 705 systems.

In developing business information the new system can make 303,000 logical decisions a second. In an equal period of time it can electronically "read" or "write" 312,500 characters of information. At this rate, in just over five minutes the 7080 can read in or write out information equivalent to the 19,530,000 words contained in Standard & Poor's six-volume Corporation Records.

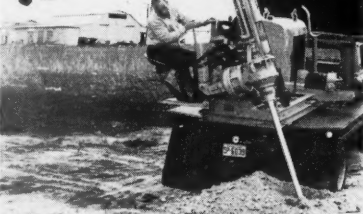
The 7080 system is capable of adding or subtracting 78,000 six-digit numbers in one second, or multiplying 7,100 six-digit numbers in the same amount of time.

A typical 7080 system will sell for \$2,528,000 or rent for \$55,500 a month. (Continued on page 24)

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month. This includes the central processing unit, magnetic core storage, console, two tape control units and twelve magnetic tape units. A basic system will sell for \$2,233,000 or rent for \$49,100 a month.

Ultra high-speed access to memory in the 7080 significantly contributes to stepped-up computing. The 7080 is designed to accept 705 I and II programs (i. e. detailed machine instructions) and internally process them ten times faster, and 705 III programs six times faster. Even greater speeds can be realized when 705 programs are modified to take advantage of the increased power and flexibility of the 7080's new program instructions.

Major 705 programs which will operate on the 7080 system include Auto-coder III, Input/Output Package, Decision Making Language, FORTRAN, Report Generator, File Maintenance System, 705 Processor, Utility Programs and Sort and Merge Routines.

The 7080 can be combined with appropriate off-line elements of the solid state IBM 1401 data processing system such as printing, punching and card-to-tape conversion equipment. As such it is said to be a particularly powerful system for applications such as public utility customer accounting.

Southern Company System to Spend \$528,000,000 in 3 Years

AT a recent meeting, the Board of Directors of The Southern Company approved the largest three year construction program in the history of the system, totaling more than \$528,000,000 for the period 1960-62 inclusive.

About \$183,000,000 will be expended in 1960 alone by the system companies—Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Southern Electric Generating Company.

Harlee Branch, Jr., president, reported that in 1959 new industries were established in Southern's service area at an average rate of nearly 17 plants and \$6,000,000 of industrial plant investment each month. Industrial expansion in the area is expected to continue at approximately the same rate in 1960, and industrial power consumption is expected to exceed 1959's record by 10 per cent, he said.

New generating units installed in 1959 totaled 435,000 kilowatts and 1,537,250 kilowatts of new capacity are scheduled for completion in the next three years.

American Gas Association Produces Color Movie on Static Electricity

THE hazards and control of static electricity on and off the job are dramatically demonstrated in a new 16 mm sound motion picture produced by the American Gas Association's Accident Prevention Committee in cooperation with the U. S. Bureau of Mines.

The 22-minute color movie, entitled "Static Electricity," shows the destructive power of static and how it can be controlled in home and industry. A major portion of the movie is based on a series of demonstrations developed by G. M. Kintz and H. F. Browne of the Bureau of Mines.

Copies of the new film may be purchased for \$200, plus shipping charges, from the Order and Billing Department, American Gas Association, 420 Lexington avenue, New York 17, New York.

\$41,000,000 Spent by Peoples Gas System in 1959

GROSS capital expenditures aggregating approximately \$41,000,000 were made during the year by pipeline and storage companies of the Peoples Gas System for new facilities to increase its supplies of natural gas and to transport more gas to the market area, and by the parent company to expand its distribution system in Chicago according to Eskill I. Bjork, chairman of The Peoples Gas Light and Coke Company. For the last two years the total figure for similar expenditures was \$128,000,000.

During this two-year period the peak day delivery capacity of the system has been increased by about 350 million cubic feet to one billion 829 million feet. Of that increase, 95 million became available as the result of expansion moves in 1959.

From all sources, the amount of natural gas available in Chicago by the end of 1959, on a peak day, was 760 million feet compared with 560 million two years earlier.

International Full-line Folder

A 24-page, four-color folder depicting, in brief form, the complete line of International construction equipment has been issued by International Harvester Company's Construction Equipment Division.

Included in the profusely-illustrated publication are crawler tractors in six power classes, five Payscraper and

Paywagon units, two Payhaulers, five International Drott For One rigs and four International prior sidebooms.

Also shown are 16 hydraulic dozer and grader blades, two tor-drawn scrapers, four cable units, five push plates and 24 carbureted International engines.

The folder (CR-650-K), designed for pocket reference, is available from International construction equipment distributors and direct from International Harvester Company, 1801 Michigan avenue, Chicago 1, Ill.

G-E Appointments

GENERAL Electric recently announced the reorganization of its Apparatus and Industrial Group into two components, an Industrial Group and an Electric Utility Group. President Robert Paxton said the move was designed to "improve focus on customer problems and to take full advantage of the very significant enlargements of growth opportunities we foresee in the immediate future."

Arthur F. Vinson, a vice president and formerly group executive of Apparatus and Industrial Group, will be group executive of the new Industrial Group. This group, which will address itself particularly to the component, materials and equipment needs of the industrial, contract and transportation industries, will be comprised of the Chemical and Metallurgical Division, Component Products Division, Motor and General Division and the Apparatus Division.

Clarence H. Linder, a vice president and formerly in charge of Engineering Services, is group executive for the new Electric Utility Group. This group comprises the Switchgear and Control Division, Transformer Division and Turbine Division.

The Apparatus Sales Division will be a pooled marketing organization, which will provide services for the Electric Utility Group, and will continue to provide services to the Electronic, Atomic and Defense Systems Group. Mr. Paxton said.

It was also announced that Harold W. Gouldthorpe has been appointed general manager of the Component Switchgear and Control Division, Philadelphia, Pa. Mr. Gouldthorpe succeeds Lewis J. Burger, who has been assigned to Fort Wayne, Ind., to head up a newly-established laboratory operation for the Component Products Division.

The P.U.R. Guide

► A new and different approach to the educational needs of utility employees — called **THE P.U.R. GUIDE**—is now widely in use throughout the industry. Somewhat descriptively, the **GUIDE** is referred to as “a journey of understanding.” It takes the user through the economics of public utilities and through many other non-technical phases of utility operation. It was organized by and is issued under the general supervision of an experienced staff of specialists.

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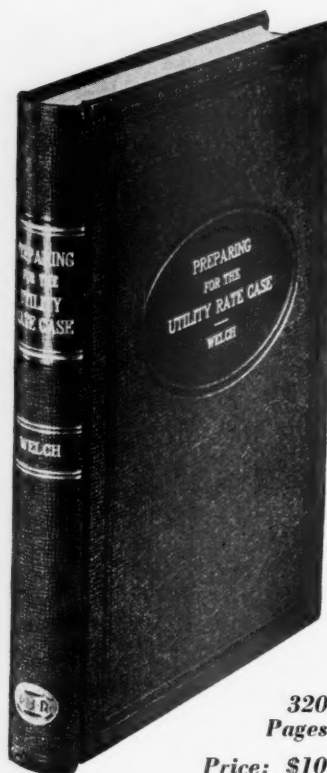
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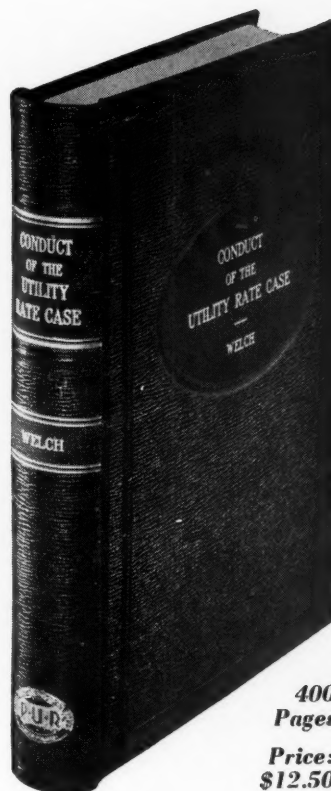
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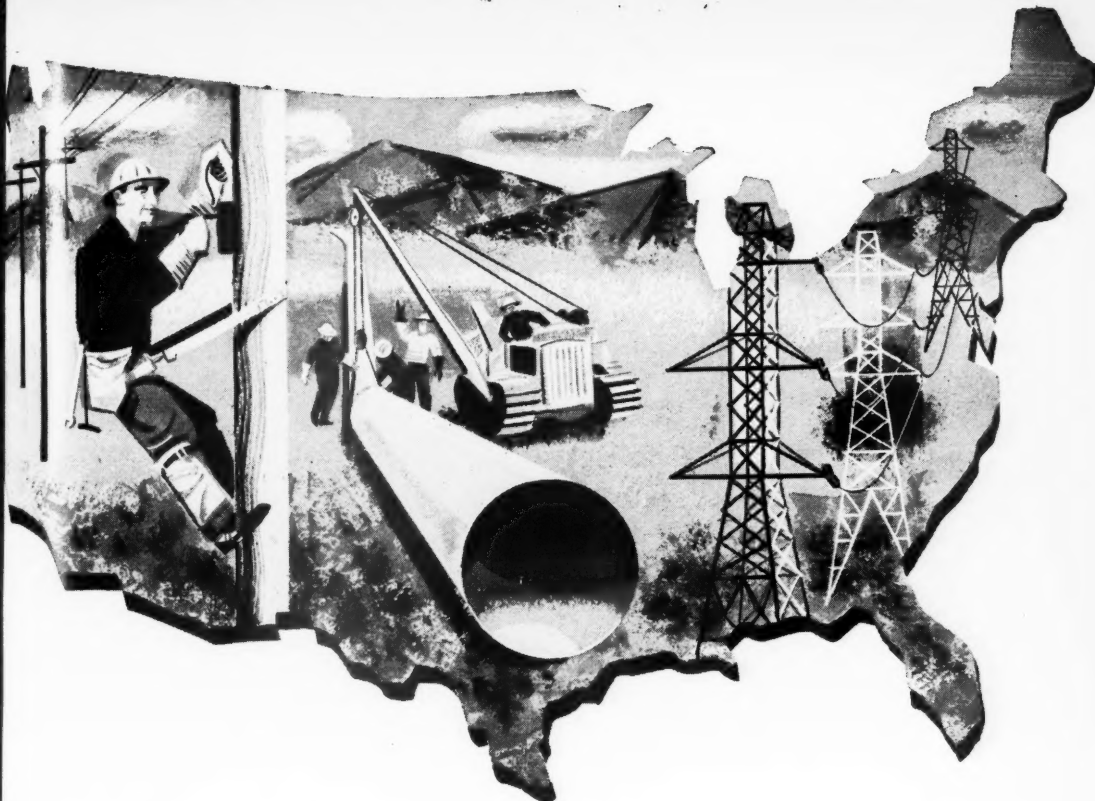
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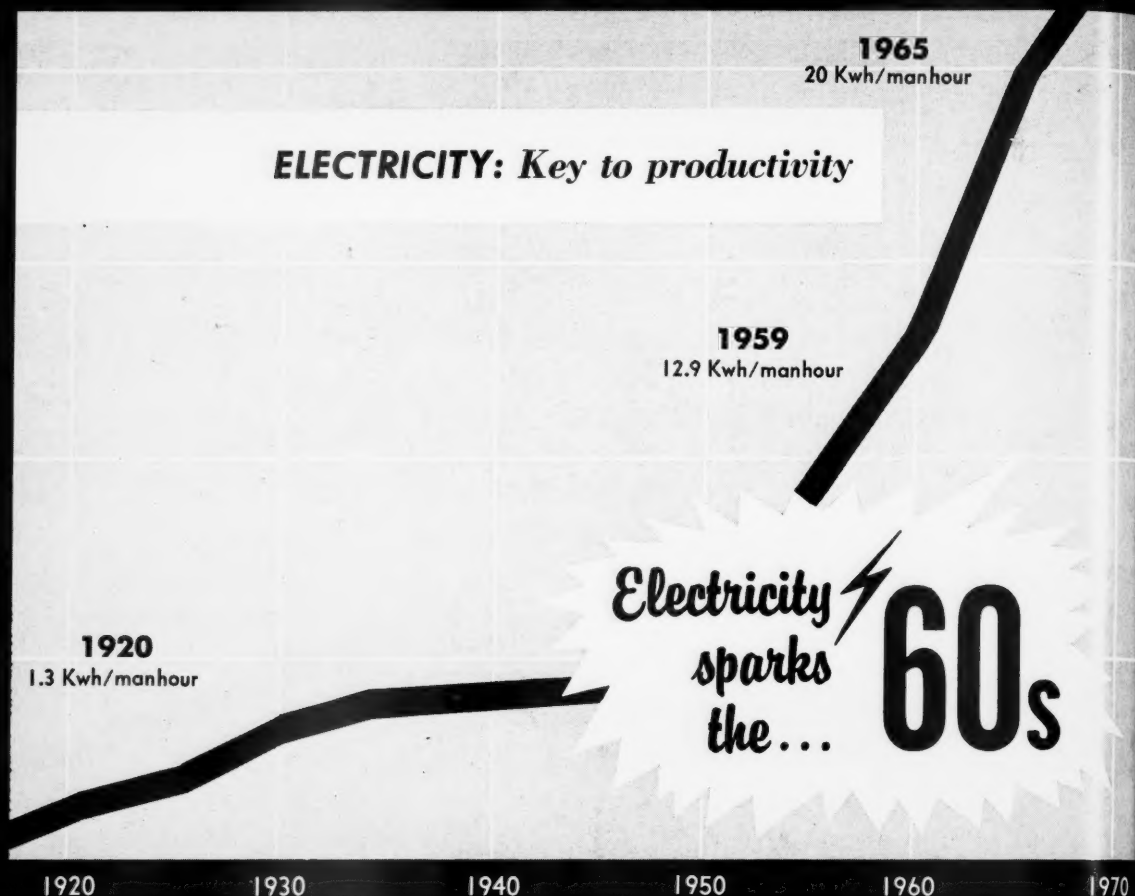
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